

SCHOOL OF EXCELLENCE IN EDUCATION

San Antonio, Texas

ANNUAL FINANCIAL AND COMPLIANCE REPORT

Year Ended August 31, 2011

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SCHOOL OF EXCELLENCE IN EDUCATION
San Antonio, Texas

FINANCIAL AND COMPLIANCE REPORT

Year Ended August 31, 2011

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INTRODUCTORY SECTION

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SCHOOL OF EXCELLENCE IN EDUCATION

BEXAR

015-806

Name of School District

County

Co. Dist. Number

We, the undersigned, certify that the attached Financial and Compliance Report of the above named school district were reviewed and ____ approved ____ disapproved for the year ended August 31, 2011 at a meeting of the Board of Directors of such school district on the _____ day of January, 2012.

Signature of Board Secretary

Signature of Board President

If the Board of Directors disapproved of the auditor's report, the reason(s) for disapproving it is/are (attach list as necessary):

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Board of Directors
School of Excellence in Education
San Antonio, Texas

We have audited the accompanying statement of financial position of the School of Excellence in Education (the School) as of August 31, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of August 31, 2011, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2012, on our consideration of the School'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the School taken as a whole. The other supplementary information and accompanying schedule of expenditures of federal awards, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statement. The other supplementary information and schedule of expenditures of federal awards have been subjected to the auditing procedure applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

January 17, 2012

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SCHOOL OF EXCELLENCE IN EDUCATION
San Antonio, Texas

STATEMENT OF FINANCIAL POSITION

August 31, 2011

ASSETS

Current Assets

Cash and Cash Equivalents	\$	2,724,736
Restricted Cash and Cash Equivalents		1,070,634
Current Investment		475,000
Inventory		7,082
Deferred Expenses		30,000
Due from Federal		49,464
Due from State		1,214,761
Other Receivables		3,500
Total Current Assets		5,575,177

Non-Current Assets

Bond Issuance Cost		360,500
Security Deposit		25,000
Property and Equipment, Net		9,430,229
Total Non-Current Assets		9,815,729

Total Assets	\$	15,390,906
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LIABILITIES AND NET ASSETS

Current Liabilities

Accounts Payable	\$	1,056,847
Accrued Wages Payable		630,491
Payroll and Payroll Related Liabilities		170,761
Interest Payable		150,502
Scholarship Payable		30,342
Deferred Revenue		118,750
Due to State		9,210
Funds Held for Others		5,927
Current Portion of Long-Term Debt		610,000
Total Current Liabilities		2,782,830

Non-Current Liabilities

Long-term Debt, Net of Current Portion		8,306,448
Total Non-Current Liabilities		8,306,448

Total Liabilities		11,089,278
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Net Assets

Temporarily Restricted		992,423
Unrestricted		3,309,205
Total Net Assets		4,301,628

Total Liabilities and Net Assets	\$	15,390,906
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The accompanying notes to financial statements
form an integral part of this statement.

SCHOOL OF EXCELLENCE IN EDUCATION
San Antonio, Texas

STATEMENT OF ACTIVITIES

Year Ended August 31, 2011

	Unrestricted	Temporarily Restricted	Total
REVENUES AND OTHER SUPPORT			
Local Support			
Food Service Activity	\$ 37,102		\$ 37,102
Interest and Other Income	121,938	-	121,938
Total Local Support	159,040	-	159,040
State Program Revenues			
Foundation School Program	-	13,892,295	13,892,295
Other State Aid	-	770,138	770,138
Total State Program Revenues	-	14,662,433	14,662,433
Federal Program Revenues			
Child Nutrition	-	990,292	990,292
ESEA Title I, Part A - Improving Basic Programs	-	1,051,571	1,051,571
ESEA Title I, School Improvement Program	-	53,604	53,604
Teacher Incentive Grant	-	704,818	704,818
ARRA - Title XIV, State Fiscal Stabilization Fund	-	355,738	355,738
Advanced Placement Program	-	580,257	580,257
ARRA - ESEA, Title I, Part A - Improving Basic Program	-	409,111	409,111
IDEA, Part B - Formula	-	199,131	199,131
ARRA - IDEA - Part B, Formula	-	284,239	284,239
ESEA Title II, Part A - Teacher/Principal Training	-	153,990	153,990
ESEA Title II, Part B - Secondary Math Teacher Support	-	13,664	13,664
Career and Technology Basic Grant	-	17,983	17,983
Summer School	-	1,074	1,074
E-Rate Contributions	-	190,450	190,450
Total Federal Program Revenues	-	5,005,922	5,005,922
Net Assets Released From Restrictions			
Restrictions Satisfied By Payments	19,863,530	(19,863,530)	-
Total Revenues and Other Support	20,022,570	(195,175)	19,827,395
EXPENSES			
Program Services			
Instruction and Instructional-Related Services	9,321,827	-	9,321,827
Instructional and School Leadership	1,780,113	-	1,780,113
Support Services			
Administrative Support Services	2,153,209	-	2,153,209
Ancillary Services	234,843	-	234,843
Support Services - Non-Student Based	3,249,685	-	3,249,685
Support Services - Student (Pupil)	2,368,361	-	2,368,361
Debt Service	636,038	-	636,038
Fund Raising	119,454	-	119,454
Total Expenses	19,863,530	-	19,863,530
Change in Net Assets	159,040	(195,175)	(36,135)
Net Assets, Beginning of Year	3,150,165	1,187,598	4,337,763
Net Assets, Ending of Year	\$ 3,309,205	\$ 992,423	\$ 4,301,628

The accompanying notes to financial statements
form an integral part of this statement.

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SCHOOL OF EXCELLENCE IN EDUCATION
San Antonio, Texas

STATEMENT OF CASH FLOWS

Year Ended August 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES

Foundation School Program Payments	\$ 14,173,051
Grant Payments	6,241,322
Miscellaneous Sources	155,540
Payments to Vendors for Goods and Services Rendered	(6,052,643)
Payments to Charter School Personnel for Services Rendered	(12,424,536)
Interest and Other Payments	(615,998)
Net Cash Provided by Operating Activities	<u>1,476,736</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Capital Assets	(233,952)
Net Cash (Used) by Investing Activities	<u>(233,952)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Principal Payments on Bonds Payable	(125,000)
Principal Payments on Capital Leases	(63,055)
Net Cash (Used) by Financing Activities	<u>(188,055)</u>

Net Increase in Cash and Cash Equivalents 1,054,729

Cash and Cash Equivalents, Beginning of Year 2,740,641

Cash and Cash Equivalents, End of Year \$ 3,795,370

Reconciliation to Statement of Financial Position

Cash and Cash Equivalents	\$ 2,724,736
Restricted Cash and Cash Equivalents	1,070,634
Total Cash and Cash Equivalents	<u>\$ 3,795,370</u>

SCHOOL OF EXCELLENCE IN EDUCATION
San Antonio, Texas

STATEMENT OF CASH FLOWS

Year Ended August 31, 2011

RECONCILIATION OF CHANGE IN NET ASSET TO NET CASH
PROVIDED BY OPERATING ACTIVITIES

Change in Net Assets	\$	(36,135)
Adjustments to Reconcile Change in Net Assets to Net Cash		
Provided by Operating Activities		
Net Cash Provided by Operating Activities		
E-Rate Contributions		(190,450)
Depreciation Expense		508,254
Amortization Expense		19,245
(Increase) Decrease in Assets		
Inventory		(2,496)
Deferred Expenses		(30,000)
Due from Federal		29,353
Due from State		1,017,964
Other Receivables		(3,500)
Increase (Decrease) in Liabilities		
Accounts Payable		35,781
Accrued Wages Payable		121,826
Payroll and Payroll Related Liabilities		46,743
Interest Payable		(2,205)
Scholarship Payable		3,000
Deferred Revenue		(500)
Due to State		(37,144)
Funds Held for Others		(3,000)
Net Cash Provided by Operating Activities	\$	<u>1,476,736</u>

Noncash Operating Activities

E-Rate contributions totaled \$190,450.

Noncash Capital and Financing Activities:

Amortization of bond issuance costs and original issue discounts totaled \$19,245.

The accompanying notes to the financial statements
form an integral part of this statement.

SCHOOL OF EXCELLENCE IN EDUCATION
San Antonio, Texas

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The School of Excellence in Education (the "School") is a not-for-profit organization incorporated in the state of Texas in 1997 and is exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code ("IRC"). In 1998, the State Board of Education of the state of Texas granted the School an open-enrollment charter pursuant to Chapter 12 of the Texas Education Code ("TEC"). Pursuant to the program described in the charter application approved by the State Board of Education and the terms of the applicable Contract for Charter, the School was opened on September 1, 1998. The School was organized to provide educational services to at-risk students.

The School, the charter holder, only operates a single charter school and did not conduct any other charter or noncharter activities.

The School is governed by a Board of Directors (the "Board"), which is comprised of four members. The Board is selected pursuant to the bylaws of the School, and has the authority to make decisions, appoint the chief executive officer of the School, and significantly influence operations. The Board has the primary accountability for the fiscal affairs of the School.

The School receives funding from the Texas Education Agency ("TEA") based on the School's Average Daily Attendance ("ADA") Foundation Formula program. Since the School receives funding from local, state, and federal government sources, it must comply with the requirements of the entities providing those funds.

B. Basis of Presentation

The financial statements of the School have been prepared on the accrual basis of accounting applicable to not-for-profit organizations in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis of accounting, income and expenses are recognized when earned or incurred. The accompanying financial statements and the related accounting system are organized and prepared in accordance with the Special Supplement to Financial Accounting and Reporting — Nonprofit Charter School Chart of Accounts, a module of the TEA's *Financial Accountability Resource Guide* (the "Resource Guide").

The School accounts and reports its activities in accordance with the Financial Accounting Standards Board - Accounting Standards Codification 958, *Not-for-Profit Entities*.

In accordance with these standards, net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions or relevant law. Accordingly, net assets of the School and changes therein are classified and reported as follows:

SCHOOL OF EXCELLENCE IN EDUCATION
San Antonio, Texas

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unrestricted — Unrestricted net assets are net assets that are not subject to donor-imposed stipulations. As of August 31, 2011, unrestricted net assets totaled \$3,309,205.

Temporarily Restricted — Temporarily restricted net assets are those resources, subject to donor-imposed restrictions, that will be satisfied by the actions of the School or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. As of August 31, 2011, temporarily restricted net assets totaled \$992,423.

Permanently Restricted — Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund annual operations. As of August 31, 2011, the School did not hold any assets that were designated as permanently restricted.

C. Cash and Cash Equivalents

The School considers all highly liquid investments purchased with an original maturity date of three months or less to be cash equivalents.

Restricted cash represents debt service reserves and maintenance reserves required by the School debt agreement. As of August 31, 2011, the total amount of cash restricted for these purposes was \$1,070,634.

D. Inventories

The School reports inventories of food items on the balance sheet at cost. Inventories are recorded as expenses when they are consumed rather than when purchased. Inventories of supplies are recorded as expenses when they are purchased. Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services with a charge to expenses and revenues for an equal amount.

E. Property and Equipment

Property and equipment are stated at historical cost, if purchased, or at fair value if donated. Property and equipment under capital lease are recorded at the present value of the future minimum lease payments. Depreciation on property and equipment and amortization on capital leases is calculated on the straight-line method over the estimated useful life of the asset. The capitalization policy for the School is \$5,000.

SCHOOL OF EXCELLENCE IN EDUCATION
San Antonio, Texas

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized but are charged to expense. Major improvements are capitalized and depreciated/amortized over the remaining useful lives of the related capital assets.

<u>Asset Classification</u>	<u>Estimated Useful Life</u>
Building and improvements	5-50 years
Furniture and equipment	3-20 years
Vehicles	5-6 years

Capital assets acquired with public funds received by the School for operations constitute public property pursuant to Chapter 12 of the Texas Education Code.

F. Bond Issuance Cost and Discount

The bond issuance costs and discount are amortized over the life of the debt using the straight-line method. Bonds payable are reported net of the applicable discount.

G. Arbitrage Payable

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the United States Treasury for investment income received at yields that exceed the issuer's tax exempt borrowing rates. The Treasury requires payment for each issue every five years. The estimated liability is updated annually for all tax-exempt issuances or changes in yields until such time payment of the calculated liability is due. Since the School qualifies under the small issuer exception (issuing less than \$15 million effective January 1, 2002), an arbitrage calculation is not required.

H. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

I. Income Taxes

The School is a not-for-profit organization and is exempt from federal income taxes under Section 501(c)(3) of the IRC, except to the extent it has unrelated business income. No such provision has been made to the accompanying financial statements.

SCHOOL OF EXCELLENCE IN EDUCATION
San Antonio, Texas

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Revenues and Support

Revenues from the State's available school fund are based on reported attendance. Contributions received are recognized as revenue in the period received and are reported as either restricted or unrestricted support.

- Contributions with donor-imposed restrictions are reported as restricted support. Restricted support increases temporarily restricted net assets.
- Contributions without donor-imposed restrictions are reported as unrestricted support. Unrestricted support increases unrestricted net assets.

Governmental grant contracts that are entered into by the School are recognized as revenue when services are rendered or when the expenses in connection with those services are incurred.

K. Restricted/Unrestricted Resources

The School funds expenses by a combination of restricted and unrestricted revenues. Thus, when expenses are incurred, there are both restricted and unrestricted resources available to finance them. It is the School's policy to first apply restricted resources to such expenses and then unrestricted revenues.

II. DEPOSITS AND INVESTMENTS

At August 31, 2011, deposits and investments are comprised of the following:

<u>Cash and Cash Equivalents:</u>	
Cash On Hand	\$ 3,846
Demand Accounts	2,720,890
Money Market Funds	<u>1,070,634</u>
	3,795,370
<u>Current Investment:</u>	
Certificate of Deposit	<u>475,000</u>
Total	<u><u>\$ 4,270,370</u></u>

SCHOOL OF EXCELLENCE IN EDUCATION
San Antonio, Texas

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2011

II. DEPOSITS AND INVESTMENTS (Continued)

Totals from Statement of Financial Position:

Cash and Cash Equivalents	\$ 2,724,736
Restricted Cash and Cash Equivalents	1,070,634
Current Investment	<u>475,000</u>
Total	<u>\$ 4,270,370</u>

Concentration of Credit Risk – The School maintains its cash, and money market funds accounts in commercial banks, which are insured by the Federal Deposit Insurance Corporation (FDIC). During the year, the School’s cash balances exceeded the FDIC limit of \$250,000 at one of its banks.

The current investment at August 31, 2011 consists of a \$475,000 certificate of deposit that matures on July 16, 2012. The annual percentage yield is 0.50%.

III. PROPERTY AND EQUIPMENT

At August 31, 2011, property and equipment consist of the following:

Land	\$ 1,349,553
Buildings and Improvements	8,680,627
Furniture and Equipment	2,639,352
Vehicles	<u>435,205</u>
	13,104,737
Less: Accumulated Depreciation/Amortization	<u>(3,674,508)</u>
	<u>\$ 9,430,229</u>

Depreciation and amortization expense totaled \$508,254 for the year ended August 31, 2011.

IV. DEFERRED REVENUE

Deferred revenue at August 31, 2011 consisted of \$118,750 for the Dropout Recovery Performance Pay grant.

SCHOOL OF EXCELLENCE IN EDUCATION
San Antonio, Texas

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2011

V. BONDS PAYABLE

On December 1, 2004, the Texas Public Finance Authority Charter School Finance Corporation (the "Finance Corporation") issued \$8,775,000 of School of Excellence in Education Project Charter School Tax-Exempt Revenue Bonds, Series 2004-A.

The following is a summary of the bonds payable at August 31, 2011:

Revenue Bonds	Interest Rate	Maturity Date	Original Issue	Balance at August 31, 2011	Due Within One Year
Series 2004-A	7%	12/1/34	\$ 8,775,000	\$ 8,530,000	\$ 135,000

Future maturities of bonds payable at August 31, 2011 are as follows:

Year Ending August 31,	Principal	Interest	Total
2012	\$ 135,000	\$ 592,375	\$ 727,375
2013	145,000	582,575	727,575
2014	155,000	572,075	727,075
2015	165,000	560,875	725,875
2016	175,000	548,975	723,975
Thereafter	7,755,000	6,593,125	14,348,125
	<u>\$ 8,530,000</u>	<u>\$ 9,450,000</u>	<u>\$ 17,980,000</u>

In accordance with the bond resolution, the School has \$733,068 on deposit in the Debt Service Reserve Fund from the proceeds of the bonds, which is an amount equal to 100% of the maximum annual debt service requirement for the bonds. Additionally, the School has \$249,691 in the Debt Service Fund and \$87,861 in the repair and replacement account as of August 31, 2011.

Interest paid on bonds payable for the year ended August 31, 2011 totaled \$601,475.

SCHOOL OF EXCELLENCE IN EDUCATION
San Antonio, Texas

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2011

VI. NOTES PAYABLE

Notes payable at August 31, 2011 are as follows:

Payee	Collateral	Interest Rate	Payable Through	Balance at August 31, 2011
Frost National Bank	Certificate of Deposit	3.25%	July 2012	\$ 475,000

Future maturities required on notes payable at August 31, 2011 are as follows:

Year Ending August 31,	Principal	Interest	Total
2012	\$ 475,000	\$ 15,651	\$ 490,651

Interest paid on notes payable for the year ended August 31, 2011 totaled \$14,270.

VII. SUMMARY OF LONG-TERM DEBT

At August 31, 2011, long-term debt consists of the following:

Bonds Payable	\$ 8,530,000
Unamortized Discount	(88,552)
Notes Payable	475,000
	<u>\$ 8,916,448</u>
Less:	
Current Portion	(610,000)
Long-term Debt, Net of Current Portion	<u>\$ 8,306,448</u>

VIII. OPERATING LEASES

The School has commitments under operating leases for parking space and campus facilities, campus building, and copy machines, which have expiration dates through September 2013.

Future lease payments at August 31, 2011 are as follows:

Year Ending August 31,	Amount
2012	\$ 487,168
2013	16,639
	<u>\$ 503,807</u>

Rental expense under operating leases for the year ended August 31, 2011 totaled \$667,168.

SCHOOL OF EXCELLENCE IN EDUCATION
San Antonio, Texas

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2011

IX. CONTINGENCIES

Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated.

The School is involved in various claims and legal actions. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the School's financial position, change in net assets, or liquidity.

Grants

The School receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to TEA and is subject to audit and adjustment. Expenses charged to federal programs are subject to audit and adjustment by the grantor agency. The programs administered by the School have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, funds may be subject to refund if so determined by TEA or other grantor agencies. Management is of the opinion that no material liability will result from such audits.

X. REGULATED INDUSTRY

The majority of the School's activities and revenues are as a result of contracts with the TEA and its operations are concentrated in the education field. As such, the School operates in a heavily regulated environment. The operations of the School are subject to administrative directives, rules, and regulations of federal, state, and local regulatory agencies, including, but not limited to, the TEA. Such administrative directives, rules, and regulations are subject to change by an act of Congress, an act of the state legislature, or an administrative change mandated by the TEA. Funding may be changed or decreased as a result of the above legislative or administrative changes.

XI. PENSION PLAN OBLIGATIONS

Plan Description

The School contributes to the Teacher Retirement System of Texas ("TRS"), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception: all risks and costs are not shared by the School, but are the liability of the state of Texas. The TRS provides service retirement, disability retirement, and death benefits to plan members and beneficiaries. The TRS operates under the authority of provisions contained primarily in Texas Government Code, Title 8, Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas, which is subject to amendment by the Texas legislature. The TRS' annual financial report and other required disclosure information are available by writing the Teacher Retirement System of Texas, 1000 Red River Street, Austin, Texas 78701, or by calling 1-800-223-8778.

SCHOOL OF EXCELLENCE IN EDUCATION
San Antonio, Texas

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2011

XI. PENSION PLAN OBLIGATIONS (Continued)

Funding Policy

Under provisions in state law, plan members are required to contribute 6.40% of their annual covered salary and the state of Texas contributes an amount equal to 6.644% of the School's covered payroll. The School contributed \$673,461, on behalf of its employees, to the TRS for the year ended August 31, 2011, the required contributions for the year.

XII. HEALTH CARE COVERAGE

During the year ended August 31, 2011, employees of the School were covered by TRS ActiveCare, a statewide health coverage program for public education employees established by the 77th Texas Legislature. The School contributed \$150 per employee, per month to the plan, while the state contributed \$75 per employee, per month to the plan. Employees, at their option, authorize payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

XIII. RECEIVABLE FROM ACTIVITY FUNDS

To comply with a TEA directive included in a letter dated August 24, 2009, the School's activity funds are required to pay the general fund for costs that were inappropriately paid from the general fund. The total amount required to be repaid was \$80,338, comprised of \$68,852 for a band trip to China and \$11,486 for the purchase of band uniforms and shoes.

The following is a summary of the receivable balance at August 31, 2011.

Balance – September 1, 2010	\$ 75,338
Less: Payments	<u>(1,000)</u>
Balance – August 31, 2011	<u>\$ 74,338</u>

XIV. RELATED ORGANIZATIONS

The School of Excellence Educational Foundation (the "Foundation"), a not-for-profit entity which was organized for educational and charitable purposes for the benefit of the School, is considered a "related organization" of the School. The Foundation's Board of Directors are appointed by majority vote of the existing directors, with the Superintendent and 2 School employees holding a permanent official seat as a director.

SCHOOL OF EXCELLENCE IN EDUCATION
San Antonio, Texas

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2011

XV. SUBSEQUENT EVENTS

The School has evaluated any potential material subsequent events through January 17, 2012, the date of the audit report, and has determined that no material subsequent events have occurred.

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OTHER SUPPLEMENTAL INFORMATION

SCHOOL OF EXCELLENCE IN EDUCATION
San Antonio, Texas

SCHEDULE OF EXPENSES BY OBJECT CODE

Year Ended August 31, 2011

		<u>Totals</u>
EXPENSES		
6100	Payroll Costs	\$ 12,593,105
6200	Professional and Contracted Services	3,732,660
6300	Supplies and Materials	1,794,550
6400	Other Operating Costs	1,110,177
6500	Debt	<u>633,038</u>
Total Expenses		<u>\$ 19,863,530</u>

SCHOOL OF EXCELLENCE IN EDUCATION
San Antonio, Texas

SCHEDULE OF EXPENSES BY DETAILED FUNCTION

Year Ended August 31, 2011

EXPENSES		<u>Totals</u>
11	Instruction	\$ 8,480,426
12	Instructional Resources and Media Services	6,395
13	Curriculum Development and Instructional Staff Development	835,006
21	Instructional Leadership	832,921
23	School Leadership	947,192
31	Guidance, Counseling and Evaluation Services	193,054
32	Social Work Services	86,455
33	Health Services	179,093
34	Student (Pupil) Transportation	797,351
35	Food Services	1,014,519
36	Cocurricular/Extracurricular Activities	97,889
41	General Administration	2,153,209
51	Plant Maintenance and Operations	2,492,369
52	Security and Monitoring Services	54,662
53	Data Processing Services	702,654
61	Community Services	234,843
71	Debt Service	636,038
81	Fund Raising	119,454
Total Expenses		<u>\$ 19,863,530</u>

SCHOOL OF EXCELLENCE IN EDUCATION
San Antonio, Texas

SCHEDULE OF CAPITAL ASSETS

Year Ended August 31, 2011

	Ownership Interest		
	Local	State	Federal
1510 Land	\$ -	\$ 1,349,553	\$ -
1520 Buildings and Improvements	-	8,680,627	-
1530 Vehicles	-	2,639,352	-
1539 Furniture and Equipment	-	435,205	-
Total Property and Equipment	<u>\$ -</u>	<u>\$ 13,104,737</u>	<u>\$ -</u>

SCHOOL OF EXCELLENCE IN EDUCATION
San Antonio, Texas

BUDGETARY COMPARISON SCHEDULE OF REVENUES AND EXPENSES

Year Ended August 31, 2011

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
REVENUES AND OTHER SUPPORT				
Local Support				
5700 Total Local Support	\$ 112,000	\$ 113,500	\$ 159,040	\$ 45,540 (1)
State Program Revenues				
5800 Total State Program Revenues	18,151,064	14,901,759 (2)	14,662,433	(239,326)
Federal Program Revenues				
5900 Total Federal Program Revenues	4,208,532	5,007,752 (3)	5,005,922	(1,830)
Total Revenues	<u>\$ 22,471,596</u>	<u>\$ 20,023,011</u>	<u>\$ 19,827,395</u>	<u>\$ (195,616)</u>
EXPENSES				
11 Instruction	\$ 10,256,239	\$ 8,658,643 (4)	\$ 8,480,426	\$ 178,217
12 Instructional Resources and Media Services	-	-	6,395	(6,395) (5)
13 Curriculum Development and Instructional Staff Development	1,036,721	944,908	835,006	109,902 (5)
21 Instructional Leadership	786,457	735,116	832,921	(97,805) (5)
23 School Leadership	995,586	896,689	947,192	(50,503)
31 Guidance, Counseling and Evaluation Services	221,677	200,296	193,054	7,242
32 Social Work Services	80,364	80,364	86,455	(6,091)
33 Health Services	172,057	175,107	179,093	(3,986)
34 Student (Pupil) Transportation	777,594	783,703	797,351	(13,648)
35 Food Services	1,066,320	1,072,429	1,014,519	57,910
36 Cocurricular/Extracurricular Activities	125,054	125,054	97,889	27,165 (6)
41 General Administration	1,853,502	1,853,859	2,153,209	(299,350) (7)
51 Plant Maintenance and Operations	2,501,250	2,507,359	2,492,369	14,990
52 Security and Monitoring Services	73,870	73,870	54,662	19,208 (6)
53 Data Processing Services	714,494	733,747	702,654	31,093
61 Community Services	277,283	295,379	234,843	60,536 (6)
71 Debt Service	854,199	854,199	636,038	218,161 (6)
81 Fund Raising	198,949	32,289 (8)	119,454	(87,165) (5)
Total Expenses	<u>\$ 21,991,616</u>	<u>\$ 20,023,011</u>	<u>\$ 19,863,530</u>	<u>\$ 159,481</u>

Variiances between actual and final budgeted amounts and original and final budgets exceeding 10% are explained below:

- (1) Food Service a la carte revenues were above budget projections.
- (2) Under estimated State grant revenue projections.
- (3) Federal grant budgets changed due to grant amendments & roll forward amounts.
- (4) Gateway Program was dropped after initial budget.
- (5) Budget adjustments not made between functions 12, 13, 21 and 81, 41.
- (6) Over estimated budgeted expense projections.
- (7) Under estimated the budgeted expense projections.
- (8) Budget adjustment not made between function 81 and 41.

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SINGLE AUDIT SECTION

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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*

Board of Directors
School of Excellence in Education
San Antonio, Texas

We have audited the financial statements of the School of Excellence in Education (the School) as of and for the year ended August 31, 2011, and have issued our report thereon dated January 17, 2012. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of 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*.

We noted certain matters that we reported to management of the School in a separate letter dated January 17, 2012.

This report is intended solely for the information and use of management, others within the School, the Board of Directors, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

January 17, 2012

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
School of Excellence in Education
San Antonio, Texas

Compliance

We have audited the compliance of the School of Excellence in Education (the School) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2011. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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. Our audit does not provide a legal determination of the School's compliance with those requirements.

In our opinion, the School complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2011.

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Internal Control Over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circulars A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We noted certain matters that we reported to management of the School in a separate letter dated January 17, 2012.

This report is intended solely for the information and use of management, others within the School, the Board of Directors, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

January 17, 2012

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SCHOOL OF EXCELLENCE IN EDUCATION
San Antonio, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended August 31, 2011

SECTION I --- SUMMARY OF AUDITORS' RESULTS

<i>Financial Statements</i>			
	Type of auditor's report issued:	Unqualified	
	Internal control over financial reporting: • Material weakness (es) identified?	___ Yes	<u> X </u> No
	• Significant control deficiency(ies) identified not considered to be material weaknesses?	___ Yes	<u> X </u> None Reported
	Noncompliance material to financial statements noted?	___ Yes	<u> X </u> No

<i>Federal Awards</i>			
	Internal control over major programs: • Material weakness (es) identified?	___ Yes	<u> X </u> No
	• Significant deficiency(ies) identified that are not considered to be material weaknesses?	___ Yes	<u> X </u> None Reported
	Type of auditor's report issued on compliance for major programs	Unqualified	
	Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section. 510(a)?	___ Yes	<u> X </u> No

SCHOOL OF EXCELLENCE IN EDUCATION
San Antonio, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended August 31, 2011

SECTION I --- SUMMARY OF AUDITORS' RESULTS (Continued)

<i>Identification of Major Programs</i>		
	CFDA Numbers(s)	Name of Federal Program or Cluster
	10.553 10.555	Child Nutrition Cluster: School Breakfast Program National School Lunch Program
	84.010A 84.389A	Title I, Part A Cluster: Title I, Part A – Improving Basic Programs ARRA – Title I, Part A – Improving Basic Programs
	84.027A 84.391A	Special Education Cluster (IDEA): IDEA - B Formula ARRA – IDEA - B Formula
	84.394A	ARRA – Title XIV, State Fiscal Stabilization Fund
	Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
	Auditee qualified as low-risk auditee?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

SECTION II – FINANCIAL STATEMENT FINDINGS

There were no financial statement findings required to be reported in accordance with *Government Auditing Standards*.

SECTION III – FEDERAL AWARD FINDING AND QUESTIONED COSTS

There were no federal award findings and questioned costs required to be reported in accordance with OMB Circular A-133, Section .510(a).

SCHOOL OF EXCELLENCE IN EDUCATION
San Antonio, Texas

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended August 31, 2011

**Finding 2009-01 – Control Environment and Employee Override
2009 and 2010 Type of Finding – Significant Deficiency**

2011 Status: Finding corrected.

**Finding 2009-02 – Human Resources/Payroll Process
2009 and 2010 Type of Finding – Significant Deficiency
2011 Type of Finding – Deficiency In Internal Control**

2010 Finding: Since the Master Pay Scale was not updated, we were unable to verify the employee's years of experience.

2010 Recommendation: We recommend the School establish internal control procedures for the human resources and payroll processes; such as, ensuring all types of job categories/positions and various types of pay are included in the approved Master Pay Scale; and, an employee's years of experience can be supported.

2011 Status: Our testing in the current year disclosed a deficiency in internal control that we reported to management of the School in a separate letter.

**Finding 2009-03 – Expenditure Requirements for Foundation School Program (FSP) Allotments
2009 and 2010 Type of Finding – Compliance**

2011 Status: Finding corrected.

SCHOOL OF EXCELLENCE IN EDUCATION
San Antonio, Texas

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended August 31, 2011

Finding 2008-01 – Financial Reporting
2008 & 2009 Type of Finding – Material Weakness
2010 Type of Finding – Significant Deficiency
2011 Type of Finding – Deficiency In Internal Control

2010 Finding: The following observations were made:

- The School operated without a chief financial officer for several months during the fiscal year until they contracted with an individual in July, 2010 to perform such functions.
- Various reconciliations were not accurately prepared during the year, which resulted in a number of adjusting journal entries to be prepared as part of the audit to fairly state financial statement balances at August 31, 2010.
- Journal entries prepared by an accountant are not reviewed and approved by the accountant's supervisor.

2010 Recommendation: We recommend the following:

- The School maintain a CFO position to oversee and ensure that accounting department is performing all required tasks in a timely manner.
- The preparation of timely and accurate reconciliations to ensure financial reports prepared are complete and accurate and can be used by management and the Board of the School to assist in the decision-making process.
- Journal entries prepared by the accountant be reviewed by his/her supervisor.

2011 Status: Our testing in the current year disclosed a deficiency in internal control that we reported to management of the School in a separate letter.

SCHOOL OF EXCELLENCE IN EDUCATION
San Antonio, Texas

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended August 31, 2011

Finding 2008-06 – Purchasing Process
2008, 2009, and 2010 Type of Finding – Compliance
2011 Type of Finding – Immaterial Instance of Noncompliance with State Requirements

2010 Finding: Our testing of sixteen (16) vendors paid over \$50,000 during the year disclosed ten (10) instances in which competitive procurement methods were not used.

2010 Recommendation: We recommend the School implement procedures that would require an individual to ensure compliance with the State and TEA's competitive procurement requirement.

2011 Status: Our testing in the current year disclosed an immaterial instance of noncompliance with the above requirement that we reported to management of the School in a separate letter.

Finding 2008-12 – Fixed Assets
2008 & 2009 Type of Finding – Significant Deficiency
2010 Type of Finding – Significant Deficiency

2011 Status: Finding corrected.

Finding 2008-14 – Public Funds Investment Act
2008, 2009, and 2010 Type of Finding – Compliance
2011 Type of Finding – Immaterial Instance of Noncompliance with State Requirements

2010 Finding: Our testing for compliance with Chapter 2256 of the Texas Government Code, the Public Funds Investment Act, indicated the following:

- On January 12, 2010, the Board designated two (2) investment officers; one (1) of which did not complete the required training.
- An annual report, instead of the required quarterly investment reports, was prepared by the accounting department, without the investment officer's knowledge.
- The investment report was not signed by the investment officers.
- The investment report omitted an investment held by the School; therefore, several required elements were omitted, such as accrued interest, maturity date, etc.
- Written representation from the financial institution doing investment business with the School was not obtained, which indicates that the institution has—
 - received and reviewed the investment policy of the School; and
 - has implemented reasonable procedures and controls in an effort to preclude investment transactions that are not authorized by the School's investment policy.

SCHOOL OF EXCELLENCE IN EDUCATION
San Antonio, Texas

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended August 31, 2011

2010 Recommendation: We recommend the School implement procedures to comply with all aspects of the PFIA. In addition, the School should consider designating an individual within the accounting department as an investment officer.

2011 Status: Our testing in the current year disclosed an immaterial instance of noncompliance with the above requirement that was reported to management of the School in a separate letter.

Finding 2008-16 – Special Tests and Provisions – Verification

Federal Program: National School Lunch Program and School Breakfast Program Cluster CFDA Number: 10.553 and 10.555

Federal Award Number: 71400801/71300801

United States Department of Agriculture

Passed Through the Texas Education Agency

2008 Type of Finding: Material Noncompliance and Material Weakness

2009 & 2010 Type of Finding: Noncompliance and Material Weakness

2011 Type of Finding – Immaterial Instance of Noncompliance with Federal Requirements

2010 Finding: In fiscal year 2010, our testing of the twenty-two (22) applications for verification resulted in the following:

- Three applications were initially denied due to nonresponse requests to verify income; however, those applications were subsequently returned to reduced status without supporting documentation of income.
- One application was changed from free to reduced status without sufficient supporting documentation of income.
- Four applications were selected for verification; however, since they did not meet the error prone criteria, they should not have been selected for verification.

2010 Questioned Costs: Likely questioned cost is \$519 based on the total potential meals served to ineligible children, assuming the children in question received meals for each school day.

2010 Recommendation: We recommend management strengthen policies and procedures over the verification process. Additionally, supporting documentation to support change in status should be retained.

2011 Status: Our testing in the current year disclosed an immaterial instance of noncompliance with the above requirement that we reported to management of the School in a separate letter.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SCHOOL OF EXCELLENCE IN EDUCATION
San Antonio, Texas

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended August 31, 2011

Grantor/Program Title	Federal CFDA No.	Project Number	Federal Expenditures
U.S. Department of Education			
Direct Assistance:			
Advanced Placement Program	84.330	S330C080209-09	\$ 580,257
Teacher Incentive Grant	84.374	S374A070138-11	704,818
Total Direct Assistance			<u>\$ 1,285,075</u>
Passed Through State Department of Education			
ESEA Title I, Part A Improving Basic Programs*	84.010A	11610101015806	\$ 1,051,571
ESEA Title I, School Improvement Program*	84.010A	11610104015806000	53,604
IDEA, Part B - Formula*	84.027A	116600010158066000	199,131
Career and Technical - Basic Grant	84.048A	11420006015806	17,983
ESEA Title II Part A, Teacher & Principal Training	84.367A	11694501015806	153,990
ESEA Title II, Part B - Secondary Math Teacher Support	84.366B	116944057110010	13,664
ARRA - Title XIV, State Fiscal Stabilization Fund	84.394A	10557001015806	355,738
ARRA - IDEA-B Formula*	84.391A	10554001015806	284,239
ARRA - Title I, Part A Improving Basic Programs*	84.389A	10551001015806	409,111
Summer School LEP	84.369A	69551002	1,074
Total Passed Through State Department of Education			<u>\$ 2,540,105</u>
Total U.S. Department of Education			<u>\$ 3,825,180</u>
U. S. Department of Agriculture			
Pass Through State Department of Education			
National School Lunch Program - Cash Assistance*	10.555	71301101	\$ 73,205
National School Lunch Program - Noncash Assistance*	10.555	71301101	596,497
School Breakfast Program*	10.553	71401101	320,590
Total U.S. Department of Agriculture			<u>\$ 990,292</u>
Total Expenditures of Federal Awards			<u><u>\$ 4,815,472</u></u>

* Clustered programs.

SCHOOL OF EXCELLENCE IN EDUCATION
San Antonio, Texas

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended August 31, 2011

1. The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") summarizes the expenditures of the School under programs of the federal government for the year ended August 31, 2011. 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 and changes in net assets of the School.

The Schedule is presented using the basis of accounting described in Note 1 of the financial statements.

2. Expenditures for the National School Lunch and Breakfast Program are shown to the extent of federal revenues earned during the year since expenditures are not specifically attributable to these revenue sources.
3. E-Rate federal revenue has been excluded from the Schedule.

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