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November 7, 2014

Charter School Board
Flanner House Elementary School, Inc.
2424 Dr. Martin Luther King Jr. Street
Indianapolis, IN 46208

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Sikich, LLP, Independent Public Accountants, for the period July 1, 2012 to June 30, 2013. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Sikich, LLP chose to issue a disclaimer of opinion because they were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements presented.

In addition to the report presented herein, a Supplemental Audit Report for Flanner House Elementary School, Inc. was prepared in accordance with the guidelines established by the State Board of Accounts.

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

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

Flanner House Elementary School, Inc.

Financial Statements
With Supplemental Information

For the Year Ended
June 30, 2013 and 2012

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT 1-2

FINANCIAL STATEMENTS:

STATEMENTS OF FINANCIAL POSITION 3

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS 4-5

STATEMENTS OF CASH FLOWS 6

NOTES TO FINANCIAL STATEMENTS 7-12

OTHER REPORTS AND SUPPLEMENTARY INFORMATION:

SCHEDULE OF FUNCTIONAL EXPENSES 13-14

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS 15-16

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS 17

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS 18

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133 .... 19 - 20

SCHEDULE OF FINDINGS AND QUESTIONED COSTS 21

OTHER REPORT 22

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Flanner House Elementary School, Inc.:

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of Flanner House Elementary, Inc. (an Indiana non-profit organization), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Guidelines for the Audits of Charter Schools Performed by Private Examiners,* issued by the Indiana State Board of Accounts. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

During the conduct of our audit, we became aware of an investigation by the Indiana State Board of Education into allegations of recent academic fraud occurring at the School. As a result of the findings of the investigation, which concluded in August 2014, the School was compelled to surrender its charter and was closed by the State in August 2014. Because the details of the investigation were confidential and inaccessible to us, we were unable to obtain the names and positions of those individuals at the School who may have been involved with the fraudulent activity. An audit in accordance with standards generally accepted in the United States of America requires us to obtain reliable representations from management related to the fair presentation of the financial statements and disclosures. Because of the uncertainties surrounding these events and the possibility of a lack of proper integrity from members of management, we were unable to obtain reliable representations as required.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements referred to in the first paragraph.

Other Matters

We were engaged for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis 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. Because of the significance of the matter described above in the Basis for Disclaimer of Opinion, it is inappropriate to and we do not express an opinion on the supplementary information referred to above.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 15, 2014, on our consideration of Flanner House Elementary, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Flanner House Elementary, Inc.'s internal control over financial reporting and compliance.

Sikich, LLP

Sikich LLP

Indianapolis, Indiana
July 15, 2014

FLANNER HOUSE ELEMENTARY SCHOOL, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 and 2012

ASSETS

	2013	2012
CURRENT ASSETS:		
Cash and cash equivalants	$ 212,468	$ 80,339
Grants receivable	36,944	4,233
State support receivable, net of allowance of $749,452 and $0, respectively	-	713,007
Prepaid expenses	15,630	12,260
Total Current Assets	265,042	809,839
PROPERTY AND EQUIPMENT:		
Furniture and equipment	122,730	91,496
Computer hardware	102,316	102,316
Computer software	1,548	1,548
Leasehold improvements	240,795	240,795
Books and educational materials	298,704	280,297
Less: accumulated depreciation	(418,860)	(351,241)
Total Property and Equipment, net	347,233	365,211
	$ 612,275	$ 1,175,050

LIABILITIES AND NET ASSETS

	2013	2012
CURRENT LIABILITIES:		
Accounts payable	$ 16,485	$ 39,867
Line of credit	36,712	54,911
Accrued payroll	32,073	33,808
Total Current Liabilities	85,270	128,586
NET ASSETS:		
Unrestricted	527,005	1,046,464
Total Net Assets	527,005	1,046,464
	$ 612,275	$ 1,175,050

See accompanying notes to the financial statements.

FLANNER HOUSE ELEMENTARY SCHOOL, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2013

	Unrestricted	Temporarily Restricted	Total
REVENUES AND SUPPORT:			
School lunch program	$ 3,003	$ -	$ 3,003
Student fees	496	-	496
Contributions and donations	1,400	-	1,400
Textbook rental	1,090	-	1,090
Grant revenue	646,033	-	646,033
State support	1,498,755	-	1,498,755
Interest income	240	-	240
Other revenue	51,369	-	51,369
Total Revenues and Support	2,202,386	-	2,202,386
PROGRAM AND SUPPORTING SERVICE EXPENSES:			
Program services	1,400,864	-	1,400,864
Supporting services:			
General and administrative	571,529	-	571,529
Total Expenses	1,972,393	-	1,972,393
NET OPERATING REVENUE	229,993	-	229,993
NON-OPERATING REVENUE:			
Loss due to changes in legislative funding	(749,452)	-	(749,452)
CHANGE IN NET ASSETS	(519,459)	-	(519,459)
NET ASSETS, beginning of year	1,046,464	-	1,046,464
NET ASSETS, end of year	$ 527,005	$ -	$ 527,005

See accompanying notes to the financial statements.

FLANNER HOUSE ELEMENTARY SCHOOL, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2012

	Unrestricted	Temporarily Restricted	Total
REVENUES AND SUPPORT:			
School lunch program	$ 3,174	$ -	$ 3,174
Student fees	486	-	486
Contributions and donations	2,228	-	2,228
Textbook rental	1,101	-	1,101
Grant revenue	503,394	-	503,394
State support	1,425,525	-	1,425,525
Interest income	192	-	192
Other revenue	28,782	-	28,782
Net assets released from restrictions by satisfaction of temporary restrictions	28,810	(28,810)	-
Total Revenues and Support	1,993,692	(28,810)	1,964,882
PROGRAM AND SUPPORTING SERVICE EXPENSES:			
Program services	1,485,688	-	1,485,688
Supporting Services:			
General and administrative	507,952	-	507,952
Total Expenses	1,993,640	-	1,993,640
CHANGE IN NET ASSETS	52	(28,810)	(28,758)
NET ASSETS, beginning of year	1,046,412	28,810	1,075,222
NET ASSETS, end of year	$ 1,046,464	$ -	$ 1,046,464

See accompanying notes to the financial statements.

FLANNER HOUSE ELEMENTARY SCHOOL, INC.
STATEMENTS OF CASH FLOWS
JUNE 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (519,459)	$ (28,758)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	67,619	63,328
Net loss due to changes in legislation	749,452	-
(Increase) decrease in:		
Grants receivable	(32,711)	(20,293)
State support receivable	(36,445)	-
Prepaid expense	(3,370)	(1,324)
Increase (decrease) in:		
Accounts payable	(23,382)	(796)
Accrued payroll	(1,735)	1,405
NET CASH PROVIDED BY OPERATING ACTIVITIES	199,969	13,562
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(49,641)	(67,009)
NET CASH USED BY INVESTING ACTIVITIES	(49,641)	(67,009)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Short-term debt borrowings	-	31,000
Short-term debt repayments	(18,199)	(67,472)
NET CASH USED BY FINANCING ACTIVITIES	(18,199)	(36,472)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	132,129	(89,919)
CASH AND CASH EQUIVALENTS - beginning of year	80,339	170,258
CASH AND CASH EQUIVALENTS - end of year	$ 212,468	$ 80,339
SUPPLEMENTAL DISCLOSURES:		
Interest Paid	$ -	$ -

See accompanying notes to the financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - Flanner House Elementary School, Inc. (the "School") was incorporated March 14, 2002, under the laws of the State of Indiana and commenced operations in September 2002. The school provides all students with a high level of academic skills to prepare them for lives of vision and consequence in the 21st century. Students are provided with a positive learning environment, challenging each individual to maintain the highest traits which are distinctly human: reason, creativity, curiosity, and compassion.

***Basis of Accounting* -** The financial statements of the School have been prepared on the accrual basis of accounting. Revenue is recognized when earned and expenses when the obligation is incurred.

Basis of Presentation - As required by Financial Statement Presentation Disclosure topic of Financial Accounting Standards Board Accounting Standards Codification (FASB ASC), the School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Net Assets - The financial statements report amounts separately by class of net assets:

> ***Unrestricted net assets -*** Unrestricted amounts are those currently available for use in the School's activities.
>
> ***Temporarily restricted net assets -*** Temporarily restricted expendable amounts are those which are restricted by donors for specific purposes. As of June 30, 2013 and 2012, the School had no temporarily restricted net assets.
>
> ***Permanently restricted net assets -*** Net assets subject to donor-imposed stipulations require that they be maintained permanently by the School. Generally, the donors of these assets permit the School to use all or part of the income earned on the related investments for general or specific purposes. As of June 30, 2013 and 2012, the School had no permanently restricted net assets.

Cash and Cash Equivalents - For purposes of the statement of cash flows, the School considers all investments purchased with a maturity of three months or less to be cash equivalents.

Grants Receivable - Grants receivable represent the uncollected portion of funds from grants awarded to the School.

Grant receivables are reported net of an allowance for doubtful accounts. There were no allowances, as of June 30, 2013 and 2012, based on management's estimate of the amount of receivables that will actually be collected. Grant receivables are charged to bad debt expense as they are deemed uncollectible based upon a periodic review of the accounts.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

State Support Receivable – Tuition support is determined by state law and is dependent upon the geographic location of the school. The tuition is also indexed to the poverty data of the enrolled students and other factors. The payment schedule is likewise determined by state law. Tuition support is payable in equal monthly installments in the calendar year following the start of the academic school year (i.e. 6 months in arrears). As such, the School followed the practice of recognizing at June 30 of each year a receivable for payments to be made to the School in the subsequent July through December time period, which represented amounts due for services rendered. Effective July 1, 2013 tuition support will be paid currently in monthly installments that coincide with the School's fiscal year.

State support receivables are reported net of an allowance for doubtful accounts. As of June 30, 2013 and 2012, the allowance for doubtful accounts was $749,452 and $0 respectively. This allowance is based upon management's estimate using the expected amount of receivables that will be collected due to the change in legislative funding (See Note 3).

Property and Equipment - Property and equipment are recorded at cost or, if contributed, at the estimated fair value at the date of the gift. The School capitalizes additions of property and equipment in excess of $1,000, cost or fair value if contributed. Depreciation of property and equipment is computed using the straight-line method and based upon the estimated useful lives of the assets ranging from 3 to 40 years. Expenditures for property and equipment and for renewals or improvements which extend the originally estimated economic life of the assets are capitalized. Expenditures for maintenance and repairs are charged to expense when incurred. When an asset is retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the statement of activities.

Depreciation expense was $67,619 and $63,328 for the year ended June 30, 2013 and 2012, respectively.

Impairment of Long-lived Assets - The School evaluates long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable based on the undiscounted cash flows of the asset. If the carrying amount of an asset may not be recoverable, a write-down to fair value is recorded. Fair values are determined based on the discounted cash flows, quoted market values, or external appraisals, as applicable. Long-lived assets are reviewed for impairment at the individual asset or the asset group level for which the lowest level of independent cash flows can be identified. Management has determined that no impairment existed for the year ended June 30, 2013 and 2012.

Revenue Recognition – Revenues primarily come from resources provided under the Indiana Charter School Act. Under the Act, the School receives an amount per student in relation to the funding received by public schools in the same geographic area. Funding from the State of Indiana is based on enrollment, and paid in equal monthly installments in January through December following the start of the academic school year. Revenue is recognized in the year in which the educational services are rendered. See Note 3 regarding legislative changes affecting revenue recognition.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Expense Allocation - The costs of providing the various programs and other activities have been summarized in the statement of activities. Some expenses relate directly to specific programs or supportive services while others do not. Expenses that relate to more than one program or supporting service are allocated among the applicable functions. The allocation is based on a formula contained within the grant documents.

Costs are allocated to the programs and supporting services. Management periodically evaluates its allocation method and revises it when necessary. Management and general expenses include those expenses that are indirectly identifiable with other specific functions, but provide for the overall support and direction of the School.

Estimates - Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could vary from the estimates that were used.

Advertising - The School expenses advertising costs as they are incurred. Advertising expense for the year ended June 30, 2013 and 2012 was $227 and $725, respectively.

Income Taxes - The School is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. The School is not considered to be a private foundation. Accordingly, no provision for income taxes has been reflected in the School's financial statements.

The School has adopted the provisions of Uncertain Tax Positions Disclosure Topics of FASB ASC, which prescribes a recognition threshold of more-likely-than-not to be sustained upon examination. Measurement of the tax uncertainty occurs if the recognition threshold has not been met. This guidance also addresses de-recognition, classification, interest and penalties, disclosure, and transition. In the normal course of business, the School is subject to examination by taxing authorities. The School's tax returns for years subsequent to fiscal year 2010 are open, by statute, for review by authorities. However, at present there are no ongoing income tax audits or unresolved disputes with the various tax authorities that the School currently files or has filed.

Concentration of Credit Risk - Financial instruments that potentially subject the School to concentrations of credit risk consist principally of temporary cash investments and grants receivable.

The School places its temporary cash investments with financial institutions and limits the amount of credit exposure to any one financial institution. There were no amounts in excess of FDIC insured limits as of June 30, 2013 and 2012.

Concentrations of credit risk with respect to grants receivable are limited due to the School's ability to accomplish the terms of the grants. Credit losses, if any, have been provided in the financial statements and have been within management's expectations.

Operating Funds from the Indiana Department of Education amounted to 68% and 73% of the School's support and revenue at June 30, 2013 and 2012, respectively. A state funding formula is used to determine the amount of revenue a charter school receives. The formula is based on the number of students enrolled in the school during the year.

NOTE 2 - DESCRIPTION OF PROGRAM AND SUPPORTING SERVICES

Education - The School offers a solid base of knowledge and the skills needed for further inquiry and participation in a global society. The school is also committed to enhancing the intellectual, social, emotional and physical well being of each student. Teachers attended staff development with an Open Court Curriculum Consultant, thus enhancing their skills and knowledge of this language and reading curriculum. The school continues to offer a program and environment that draws out the artist, musician, and poet in each student.

NOTE 3 – LEGISLATIVE FUNDING CHANGES

In 2013, the Indiana legislature passed amendments to the Indiana Charter Schools Act that altered the manner in which charter schools are funded. Prior to enactment, charter schools received funding in the calendar year following the start of the academic school year (i.e. 6 months in arrears). As such, the School followed the practice of recognizing at June 30 of each year a receivable for payments to be made to the School in the subsequent July through December time period, which represented amounts due for services rendered.

In the same session, the Indiana legislature appropriated funding from the Indiana general fund to repay Indiana Common School Fund loans and accrued interest outstanding as of June 30, 2013 on behalf of charter schools. The School did not have Common School Fund loans to be forgiven. However, the School needed to record an allowance of $749,452 for funding lost due to the legislative change.

NOTE 4 – GRANTS RECEIVABLE

Grants receivable for the years ended June 30, 2013 and 2012 represent amounts due from the Indiana Department of Education relating to the following sources:

	2013	2012
Title I	$ 12,194	$ 2,871
Title II	10,004	-
SIG	-	1,362
Special Education	4,795	-
Facilities	6,934	-
Nutrition	3,017	-
	$ 36,944	$ 4,233

NOTE 5 - OPERATING LEASES

The School entered into a one year lease with Flanner House of Indianapolis, Inc., an unrelated party, for educational facilities located at 2424 Dr. Martin Luther King Jr. Street, Indianapolis, Indiana. The lease, which expired on June 30, 2013, requires a monthly payment of $6,934. On July 1, 2013, the School renewed the lease for a term of three years.

On July 11, 2012, the school renewed a lease with Tyson for nine modular classrooms. The lease, which expires July 2014, required monthly payments of $9,922.

The School also leases a copier from LEAF Capital Funding, LLC. The lease will expire February 2016, and requires a monthly payment of $509.

During the years ended June 30, 2013 and 2012, $208,374 and $162,755, respectively was expensed for lease expense.

The future minimum rental payments required under the operating leases for the years subsequent to June 30, 2013 are as follows:

Year	Amount
2014	214,198
2015	220,431
2016	106,004
2017	-
	$ 540,633

NOTE 6 - PENSION PLAN

The School elected to become a participating employer in the Indiana Public Retirement System (INPRS). INPRS resulted from legislation passed in 2010 that merged the Public Employees' Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF), with the merger of the funds being effective as of July 1, 2011. The Indiana Public Employees' Retirement Fund (PERF) is a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS. The Indiana Teachers' Retirement Fund (TRF) is a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. For years ended June 30, 2013 and 2012, the School contributed $63,683 and $69,060, respectively, for PERF and TRF.

INPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to INPRS, One North Capitol, Suite 001, Indianapolis, Indiana 46204.

NOTE 7 - LINE OF CREDIT

The School maintains a $100,000 revolving bank line of credit, which expires November 9, 2014. At June 30, 2013 and 2012, there was $36,712 and $54,911 borrowed against this line. The line is secured by the assets of the School. Interest varies with the bank's prime rate plus 1%, which was 4.25% and 4.25% on June 30, 2013 and 2012, respectively, and is payable monthly. Interest expense was $2,063 and $4,931 for the years ended June 30, 2013 and 2012, respectively.

The School also has a $10,000 line of credit with Dell Financial Services. At June 30, 2013 and 2012 there was no balance outstanding against this line of credit. The line is unsecured. Interest is fixed at 27.99% on June 30, 2013 and 2012 and is payable monthly. Interest expense was $0 and $1,539 for the year ended June 30, 2013 and 2012, respectively.

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

As of June 30, 2013 and 2012, the School had no temporarily restricted net assets.

During the year ended June 30, 2013 and 2012, temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2013	2012
Education Jobs	$ -	$ 769
Facilities Grant	-	28,041
	$ -	$ 28,810

NOTE 9 - SUBSEQUENT EVENT

In preparing these financial statements, the School has evaluated subsequent events and transactions for potential recognition or disclosure through July 15, 2014, the date the financial statements were available to be issued.

FLANNER HOUSE ELEMENTARY SCHOOL, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2013

	Program Service Expenses			Supporting Services		
	Grants	Academics	Total Program Services	Management and Totals	Fundraising	Total Expenses
Salaries and benefits	$ 211,733	$ 677,992	$ 889,725	$ 284,002	$ -	$ 1,173,727
Instructional services	102,794	14,141	116,935	-	-	116,935
Accounting services	-	-	-	61,127	-	61,127
Technology services	-	-	-	22,229	-	22,229
Other outside services	-	11,273	11,273	35,343	-	46,616
Course materials/supplies	2,256	14,839	17,095	20,138	-	37,233
Nutritional support	110,718	-	110,718	-	-	110,718
Sales and marketing	-	-	-	227	-	227
Small equipment purchases and rental	-	4,707	4,707	10,794	-	15,501
Rent and facilities	82,935	120,175	203,110	37,241	-	240,351
Insurance	-	-	-	26,927	-	26,927
Depreciation and amortization	-	47,300	47,300	20,319	-	67,619
Interest expense	-	-	-	2,063	-	2,063
Miscellaneous	-	-	-	51,122	-	51,122
	$ 510,436	$ 890,428	$ 1,400,864	$ 571,529	$ -	$ 1,972,393

See accompanying notes to the financial statements.

FLANNER HOUSE ELEMENTARY SCHOOL, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2012

	Program Service Expenses			Supporting Services		
	Grants	Academics	Total Program Services	Management and General	Fundraising	Total Expenses
Salaries and benefits	$364,455	$ 738,155	$ 1,102,610	$ 252,306	$ -	$1,354,916
Instructional services	6,284	80	6,364	-	-	6,364
Technology Services	1,102	-	1,102	32,368	-	33,470
Accounting services	-	-	-	44,606	-	44,606
Other outside services	3,061	44,993	48,054	18,445	-	66,499
Course materials/supplies	-	15,949	15,949	14,703	-	30,652
Nutritional support	143,170	-	143,170	-	-	143,170
Sales and marketing	-	-	-	5,204	-	5,204
Rent and facilities	55,166	77,734	132,900	35,631	-	168,531
Depreciation and amortization	-	35,539	35,539	27,789	-	63,328
Interest expense	-	-	-	4,931	-	4,931
Insurance	-	-	-	32,944	-	32,944
Advertising expenses	-	-	-	725	-	725
Small equipment purchases and rental	-	-	-	27,501	-	27,501
Miscellaneous	-	-	-	10,799	-	10,799
	$573,238	$ 912,450	$ 1,485,688	$ 507,952	$ -	$1,993,640

See accompanying notes to the financial statements.

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
of Flanner House Elementary School, Inc.:

We were engaged to audit, 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 Flanner House Elementary School, Inc. (an Indiana nonprofit organization), which comprise the statement of financial position as of June 30, 2013 and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 15, 2014. Our report disclaims an opinion on such financial statements because of the allegations of recent academic fraud occurring at the School.

Internal Control over Financial Reporting

In connection with our engagement to audit the financial statements, we considered Flanner House Elementary School, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Flanner House Elementary School, Inc.'s, internal control. Accordingly, we do not express an opinion on the effectiveness of Flanner House Elementary School, Inc.'s internal control.

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.

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.

Compliance and Other Matters

In connection with our engagement to audit the financial statements of Flanner House Elementary School, Inc., 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sikich, LLP

Sikich LLP

Indianapolis, Indiana
July 15, 2014

FLANNER HOUSE ELEMENTARY SCHOOL, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed through the Indiana Department of Education			
Child Nutrition Cluster			
National School Lunch Program	10.555*	FY 2012-2013	$ 87,667
School Breakfast Program	10.553*	FY 2012-2013	13,780
Total for Child Nutrition Cluster			101,447
Total for U.S. Department of Agriculture			101,447
U.S. DEPARTMENT OF EDUCATION			
Passed through the Indiana Department of Education			
Special Education Cluster (IDEA)			
Special Education Grants to States	84.027	FY 2012-2014	31,658
Title I, Part A Cluster	84.010	FY 2011-2012	38,621
Title I Grants to Local Educational Agencies		FY 2012-2013	190,490
Total Title I, Part A Cluster			229,111
ARRA-Education Jobs Fund	84.410	FY 2010-2011	960
School Improvement Grants	84.377	FY 2011-2012	34,395
Charter Schools	84.282*	FY 2011-2012	20,530
		FY 2012-2013	62,405
Total for program			82,935
Improving Teacher Quality State Grants	84.367	FY 2010-2011	2,813
		FY 2011-2013	20,267
		FY 2012-2014	22,877
Total for program			45,957
Total U.S. Department of Education			425,016
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 526,463

** Indicates a major program*

FLANNER HOUSE ELEMENTARY SCHOOL, INC.
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Flanner House Elementary School, Inc. and is presented on the accrual basis of accounting. The information in these schedules is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in these schedules may differ from amounts presented in, or used in the preparation of, the financial statements.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of $500,000 in any fiscal year unless by constitution or statute a less frequent audit is required.

NOTE 2 – OTHER

There were no amounts provided to sub-recipients; there was no non-cash assistance; there was no federal insurance in effect; and there were no loans or loan guarantees with continuing compliance requirements.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors
of Flanner House Elementary School, Inc.:

Report on Compliance for Each Major Federal Program

We have audited Flanner House Elementary School, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Flanner House Elementary School, Inc.'s major federal programs for the year ended June 30, 2013. Flanner House Elementary School, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Flanner House Elementary School, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, *Local Governments, and Non-Profit 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 Flanner House Elementary School, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Flanner House Elementary School, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Flanner House Elementary School, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Flanner House Elementary School, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Flanner House Elementary School, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular 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 Flanner House Elementary School, Inc.'s internal control over compliance.

A *deficiency in internal control* over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Sikich, LLP

Sikich LLP

Indianapolis, Indiana
July 15, 2014

FLANNER HOUSE ELEMENTARY SCHOOL, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

- Type of auditor's report issued: **disclaimer of opinion**

Internal control over financial reporting:

- Material weakness(es) identified? ____ Yes __X__ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ____ Yes __X__ No

Compliance:

- Noncompliance material to financial statements noted? ____ Yes __X__ No

OMB Circular A-133:

Internal control over major programs:

- Material weakness(es) identified? ____ Yes __X__ No
- Significant deficiencies identified that are not considered to be material weaknesses? ____ Yes __X__ No

Compliance with requirements applicable to each major program:

- Identification of major programs: **84.282 Charter Schools**
  10.555, 10.553 Child Nutrition Cluster

- Dollar threshold used to distinguish between type A type B programs: **$ 300,000**
- Auditee qualified as low-risk auditee? __X__ Yes ____ No
- Type of auditors' report issued on compliance for major programs: **disclaimer of opinion**
- Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ____ Yes __X__ No

SECTION II – FINANCIAL STATEMENTS FINDINGS

- *None*

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

- *None*

The reports presented herein were prepared in addition to another report prepared for the School as listed below:

Supplemental Audit Report of Flanner House Elementary School, Inc.