

**TEXAS SERENITY ACADEMY, INC.**

**ANNUAL FINANCIAL  
AND COMPLIANCE REPORT  
FOR THE FISCAL YEAR  
ENDING AUGUST 31, 2008**

**WALTER D. DAVIS, CPA  
HOUSTON, TEXAS**

21 pgs

TEXAS SERENITY ACADEMY, INC.

TABLE OF CONTENTS

<u>REPORT NAME</u>	<u>PAGE</u>
Certificate of Board	
Independent Auditor's Report	1
Financial Statements	
Statement of Financial Position	2
Statement of Activities by Functions	3
Statement of Cash Flows	4
Notes to Financial Statements	5
Schedule of Expenses	11
Schedule of Capital Assets	12
Budgetary Comparison Schedule	13
Report on Internal Control over Financial Reporting and on Compliance And Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	14
Schedule of Status of Prior Year Findings	16
Schedule of Findings	18

**CERTIFICATE OF THE BOARD**

**Name of Charter Holder: Texas Serenity Academy, Inc.  
Name of School: Texas Serenity Academy Charter School  
Harris County District Number: 170-801**

We, the undersigned, certify that the attached Annual Financial and Compliance Report of Texas Serenity Academy, Inc. (FEIN: 76-0575970) was reviewed and

    X          Approved      \_\_\_\_\_      Disapproved

for the year ended August 31, 2008 at a meeting of the governing body of said Charter Holder on the 27<sup>th</sup> day of January 2009.

\_\_\_\_\_  
Signature of Board Secretary

\_\_\_\_\_  
Signature of Board President

*Walter D. Davis*

CERTIFIED PUBLIC ACCOUNTANT

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**Independent Auditor's Report**

The Board of Directors  
Texas Serenity Academy, Inc.

I have audited the accompanying statement of financial position of Texas Serenity Academy, Inc. (TSA) as of August 31, 2008, 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. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Texas Serenity Academy, Inc. as of August 31, 2008, and the changes in their net assets and 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* I have also issued my report dated January 19, 2009, on my consideration of the School's internal control over financial reporting and our tests of it's compliance with certain provisions of laws, regulations, contracts and grants.

*Walter D. Davis CPA*

Walter D. Davis, CPA  
January 19, 2009

**TEXAS SERENITY ACADEMY, INC.**  
Statement of Financial Position  
For the year ended August 31, 2008

**Assets**

**Current Assets**

Cash	\$ 77,116
<b>Total Current Assets</b>	<u>77,116</u>

Property and Equipment (Note 2)	<u>712,384</u>
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<b>Total Assets</b>	<u><u>789,500</u></u>
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**Liabilities and Net Assets**

**Current Liabilities:**

Accounts Payable	113,614
Accrued Liabilities (Note 7)	<u>458,710</u>
<b>Total Current Liabilities</b>	<u>572,324</u>

**Net Assets (Notes 6 and 8):**

Unrestricted (Deficit)	217,176
Temporarily restricted	<u>-</u>
<b>Total Net Assets</b>	<u>217,176</u>

<b>Total Liabilities and Net Assets</b>	<u><u>\$ 789,500</u></u>
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See the accompanying notes to the financial statements.

Statement of Activities  
For the year ended August 31, 2008

		<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenues and Other Support:</b>				
<b>Local Support:</b>				
5744	Gifts	\$ 5,000	\$ -	\$ 5,000
5749	Other Revenue	8,312	-	8,312
<b>Total Local Support</b>		<u>13,312</u>	<u>-</u>	<u>13,312</u>
<b>State Program Revenues:</b>				
5812	Foundation School Program	-	2,270,565	2,270,565
5829	Other State Aid	-	5,404	5,404
5829	AMI	-	20,504	20,504
<b>Total State Program Revenues</b>		<u>-</u>	<u>2,296,473</u>	<u>2,296,473</u>
<b>Federal Program Revenues:</b>				
	ESEA Title I, Part A	-	67,542	67,542
	NSLP	-	96,582	96,582
	Child Nutrition	-	45,762	45,762
	Idea-B Formula	-	53,656	53,656
	Others	-	5,768	5,768
	Title II, Part A	-	15,022	15,022
5920	<b>Total Federal Program Revenues</b>	<u>-</u>	<u>284,332</u>	<u>284,332</u>
		-	2,580,805	2,580,805
<b>Net Assets Released from Restrictions:</b>				
Satisfaction of Program Restrictions		2,580,805	(2,580,805)	-
<b>Total Revenues &amp; Other Support</b>		<u>2,594,117</u>	<u>-</u>	<u>2,594,117</u>
<b>Expenses:</b>				
11	Instruction	918,747	-	918,747
13	Curriculum Development and Instructional	19,922	-	19,922
23	School Leadership	143,086	-	143,086
31	Counseling	2,849	-	2,849
33	Special Ed	17,203	-	17,203
34	Student (Pupil) Transportation	201,591	-	201,591
35	Food Services	166,719	-	166,719
36	Extra Curricular	1,624	-	1,624
41	General Administration	669,241	-	669,241
51	Plant Maintenance and Operations	340,926	-	340,926
52	Security and Monitoring Services	14,211	-	14,211
53	Data Processing	30,180	-	30,180
71	Interest	3,750	-	3,750
<b>Total Expenses</b>		<u>2,530,049</u>	<u>-</u>	<u>2,530,049</u>
<b>Change in Net Assets</b>		64,068	-	64,068
<b>Prior period adjustment</b>		90,065	-	90,065
<b>Net Assets at Beginning of Year</b>		<u>63,043</u>	<u>-</u>	<u>63,043</u>
<b>Net Assets at End of Year</b>		<u>\$ 217,176</u>	<u>\$ -</u>	<u>\$ 217,176</u>

See the accompanying notes to the financial statements.

**TEXAS SERENITY ACADEMY, INC.**  
Statement of Cash Flows  
For the year ended August 31, 2008

**Cash Flows from Operating Activities:**

Change in Net Assets	<u>\$ 64,068</u>
Adjustments to Reconcile Change in Net Assets	
Net Cash Provided by Operating Activities	
Depreciation	(211,087)
(Increase) Decrease in Operating Assets:	
Fixed Assets	-
Increase (Decrease) in Operating Liabilities:	-
Accounts Payable and Accrued Expenses	<u>(18,259)</u>
<b>Net Cash Provided by Operating Activities</b>	<u>(165,278)</u>
<b>Cash Flows from Investing Activities</b>	-
Fixed Assets	141,769
<b>Cash Flows from Financing Activities</b>	-
<b>Net Increase in Cash</b>	23,509
<b>Cash at Beginning of Year</b>	53,607
<b>Cash at End of Year</b>	<u>77,116</u>
<b>Interest Expense</b>	<u>\$ 3,750</u>

See the accompanying notes to the financial statements.

**TEXAS SERENITY ACADEMY, INC.**  
**Notes to the Financial Statements**  
**August 31, 2008**

**(1) Summary of Significant Accounting Policies**

**Organization**

Texas Serenity Academy, Inc. (a non-profit organization) provides an educational program for "at-risk" elementary and middle school aged students. The school operated a Houston campus for the entire fiscal year, under an open enrollment charter granted by the state of Texas Board of Education. This charter was issued for a period of five (5) years and is subject to review and renewal prior to the expiration date of the original charter. The organization was incorporated in July, 1998 and has been recognized as an organization exempt from federal income taxes under section 501 (c) (3) of the internal revenue code.

**Basis of Presentation**

The School's financial statements have been prepared in conformity with generally accepted accounting principles as applied to non-profit organizations in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide.

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, management made certain 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 as revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net assets and revenues, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the School and changes therein are classified and reported as follows:



Unrestricted net assets – net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – net assets that are subject to donor-imposed stipulations that require the passage of time or the occurrence of a specific event.

Permanently restricted net assets – net assets required to be maintained in perpetuity with only the income to be used for the School's activities due to donor-imposed restrictions.

### **Cash and Cash Equivalents**

For purposes of the statement of cash flows, the School considers all highly liquid investment instruments purchased with original maturities of three months or less to be cash equivalents.

### **Fair Value in Financial Instruments**

The carrying amount of cash equivalents, receivables, accounts payable and accrued liabilities approximates fair value because of the short maturity of these instruments.

### **Property, Equipment, and Depreciation**

Property and equipment are stated at cost. Depreciation and amortization of property and equipment with a value of \$1,000 or more are calculated using the straight-line method over the estimated useful lives of the net assets, which range from three to twenty years.

Donations of property and equipment are recorded as direct additions to net assets at fair value at the date of donation, which is then treated at cost.

## Contributions

The School records unconditional contributions, including promises to give, as revenue when received. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. Contributions are recorded net of estimates of uncollectible amounts.

The School reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Gifts of property and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used.

## Revenues

Revenues from the State of Texas available school fund are earned based on reported attendance. Revenues for state and federal grants are recognized as earned when the related program expenditures are incurred.

### (2) Property and Equipment

Property and equipment at August 31, 2008 is as follows:

Software	\$ 1,318
Vehicles	36,595
Building Improvements	297,902
Furniture and Equipment	<u>546,543</u>
Total Property and Equipment	<u>882,358</u>
Less: Accumulated Depreciation	<u>(169,974)</u>
Net Property and Equipment	<u>\$712,384</u>

Depreciation expense was charged to Governmental Functions as follows:

Classroom Improvements	\$45,104
Plant Maintenance	28,515
Transportation & Other	<u>16,220</u>
Total Depreciation Expense	<u>\$89,839</u>

**(3) Operating Leases**

The School has entered into a non-cancelable operating leases for School facilities, office space and storage space and are on month to month extensions on any expired leases. Locations: Sweetwater Street, N. Sam Houston Parkway, and Spring Village Center.

Future minimum lease payments related to operating leases are detailed as follows:

<u>YEAR</u>	<u>OFFICE</u>	<u>SCHOOL</u>	<u>STORAGE</u>
2009	\$ 35,229	\$ 75,600	\$ 24,000
2010	35,229	75,600	24,000
2011	35,229	75,600	24,000
2012	35,229	75,600	24,000
2013	<u>35,229</u>	<u>75,600</u>	<u>24,000</u>
<b>TOTAL</b>	<u>\$ 176,145</u>	<u>\$ 378,000</u>	<u>\$ 120,000</u>

Total rental expense for the year ended August 31, 2008 was \$154,226.

**(4) Pension**

**Plan Description**

The charter school contributes to the Teacher Retirement System of Texas (the System) 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 charter school but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates under the authority of provisions contained primarily in the 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 System's annual financial report and other required disclosure information are available by writing the Teacher Retirement System of Texas, 1000 Red River, Austin, Texas 78701-2698 or by calling (800) 877-0123.

## Funding Policy

Under provisions in State law, plan members are required to contribute 6.4% of their annual covered salaries and the State of Texas contributes an amount equal to 6.0% of the charter schools covered payroll. The charter school's employee's contributions to the System for year ended August 31, 2008 was approximately \$73,285 equal to the required contributions for the year.

### (5) Related Party Transactions

The School entered into an agreement with a board member for insurance coverage. The School also entered into a contract with a member of the board of directors for consulting services. During the year ended August 31, 2008, the School paid these related parties approximately \$34,700 for consulting services supplied to the School and \$9,185 for liability insurance. The president of the governance board received approximately \$224,000 in a buy out package in 2007/08.

### (6) Commitments and Contingencies

The School receives funds through state and federal programs that are governed by various statues and regulations. State program funding is based primarily on student attendance, data submitted to the Texas Education Agency and is subject to audit and adjustments. Expenses charged to federal programs are subject and adjustment by the agency. The programs administered by School have complex compliance requirements, and should state or federal auditors discover areas of noncompliance of the School funds may be subject to refund if so determined by the Texas Education Agency or the grantor agency.

As of August 31, 2008 and through the date of this report, there were several lawsuits and claims pending against the organization. Management is unable to predict the ultimate outcome of these lawsuits and claims but believes any liabilities resulting from such lawsuits will not materially affect the financial position of the organization.

### (7) Accrued Liabilities

Payroll Taxes	\$370,147
Due to State	19,496
Employee Wages	48,636
Teacher Retirement	11,592
Other	<u>8,839</u>

Total \$458,710

**(8) Concentrations of Credit Risk Arising from Cash Deposits in Excess of Insured Limits**

The School maintains its cash accounts in one financial institution located in Houston. The accounts are insured by Federal Deposit Insurance Corporation up to \$250,000 each. At August 31, 2008, the Organization's cash balances were all insured by the FDIC.

**(9) Campus Closing**

The charter holder is licensed for 3 locations and in prior years operated a Houston and a Dallas campus. However, the Dallas campus did not operate in school year 2007/2008 due to cost cutting measures by the charter holder.

**(10) Subsequent Events**

In January 2009, the Texas Education Agency reduced the ADA recovery amount from \$707,267 to \$551,198.

**(11) Prior Period Adjustment**

An adjustment of approximately \$90,065 was made to correct the overstatement of depreciation expense for prior periods.

**TEXAS SERENITY ACADEMY, INC.**  
Schedule of Expenses for Charter School  
For the year ended August 31, 2008

Expenses

6100	Payroll Costs	\$ 1,118,171
6200	Professional and Contracted Services	1,088,309
6300	Supplies and Materials	181,128
6400	Other Operating Costs	138,691
6500	Interest	<u>3,750</u>
	<b>Total Expenses</b>	<b><u><u>\$ 2,530,049</u></u></b>

See the accompanying notes to the financial statements.

**TEXAS SERENITY ACADEMY, INC.**  
Statement of Capital Assets for Charter School  
For the year ended August 31, 2008

		<b>Ownership Interest</b>			
		<b>Total</b>	<b>Local</b>	<b>State</b>	<b>Federal</b>
1520	Improvements	\$ 297,902	\$ 297,902	\$ -	\$ -
1530	Equipment	525,960	-	89,728	436,232
1531	Vehicles	29,059	-	29,059	-
1539	Furniture/Equipment	5,000	-	-	5,000
1541	Vehicles	7,536	-	7,536	-
1549	Furniture/Equipment	16,902	-	12,712	4,190
<b>Total</b>		<b>\$ 882,359</b>	<b>\$ 297,902</b>	<b>\$ 139,035</b>	<b>\$ 445,422</b>

See the accompanying notes to the financial statements.

**TEXAS SERENITY ACADEMY, INC.**  
 Budget Comparison  
 For the year ended August 31, 2008

		Budgeted Amounts		Actual	Variance
		Original	Final	Amounts	from Final Budget
<b>Revenues and Other Support:</b>					
<b>Local Support:</b>					
5744	Gifts	\$ -	\$ 9,000	\$ 5,000	\$ (4,000)
5749	Other Revenue	-	-	8,312	8,312
	<b>Total Local Support</b>	<u>-</u>	<u>9,000</u>	<u>13,312</u>	<u>4,312</u>
<b>State Program Revenues:</b>					
5812	Foundation School Program	2,485,727	2,338,305	2,270,565	(67,740)
5829	AMI	-	44,510	20,504	(24,006)
5829	Other	-	5,404	5,404	-
	<b>Total State Program Revenues</b>	<u>2,485,727</u>	<u>2,388,219</u>	<u>2,296,473</u>	<u>(91,746)</u>
<b>Federal Program Revenues:</b>					
5929	ESEA Title I, Part A	160,000	67,542	67,542	-
5922	NSLP	-	173,466	96,582	(76,884)
5921	Child Nutrition	192,000	-	45,762	45,762
5929	Idea and Formula	-	53,656	53,656	-
	Others	-	4,207	5,768	1,561
5922	Title II, Part A	-	15,022	15,022	-
5920	<b>Total Federal Program Revenues</b>	<u>352,000</u>	<u>313,893</u>	<u>284,332</u>	<u>(29,561)</u>
	<b>Total Revenues &amp; Other Support</b>	<u>2,837,727</u>	<u>2,711,112</u>	<u>2,594,117</u>	<u>(116,995)</u>
<b>Expenses:</b>					
11	Instruction	1,109,094	973,435	918,747	(54,688)
13	Curriculum Development and Instructional	12,000	24,900	19,922	(4,978)
21	Curriculum Leadership	43,783	1,000	-	(1,000)
23	School Leadership	294,934	166,934	143,086	(23,848)
31	Counseling	39,000	5,000	2,849	(2,151)
33	Health Services	33,700	22,200	17,204	(4,996)
34	Student (Pupil) Transportation	158,959	171,959	201,591	29,632
35	Food Services	122,326	168,326	166,719	(1,607)
36	Extra Curricular	22,786	3,000	1,624	(1,376)
41	General Administration	581,852	686,852	669,241	(17,611)
51	Plant Maintenance and Operations	538,591	340,591	340,925	334
52	Security and Monitoring Services	51,903	10,000	14,211	4,211
53	Data Processing	47,959	35,304	30,180	(5,124)
71	Interest	5,500	-	3,750	3,750
	<b>Total Expenses</b>	<u>3,062,387</u>	<u>2,609,501</u>	<u>2,530,049</u>	<u>(79,452)</u>
	<b>Change in Net Assets</b>	(224,660)	101,611	64,068	-
	<b>Prior Period Adjustment</b>			90,065	
	<b>Net Assets at Beginning of Year</b>	-	-	63,043	-
	<b>Net Assets at End of Year</b>	<u>\$ (224,660)</u>	<u>\$ 101,611</u>	<u>\$ 217,176</u>	<u>\$ -</u>

See the accompanying notes to the financial statements.



*Walter D. Davis*

CERTIFIED PUBLIC ACCOUNTANT

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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**

The Board of Directors  
Texas Serenity Academy, Inc.

I have audited the financial statements of Texas Serenity Academy, Inc. (TSA) (a nonprofit organization) as of and for the year ended August 31, 2008, and have issued my report thereon dated January 19, 2009. I conducted my 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 my audit, I considered TSA's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the effectiveness of the TSA's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.


A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether TSA's financial statement are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances on noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

  
Walter D. Davis, CPA  
January 19, 2009

**TEXAS SERENITY ACADEMY, INC.**  
**Schedule of Status of Prior Year Findings**  
**For the year ended August 31, 2008**

**Finding: 2007-01**

Criteria

Generally accepted accounting principles requires that management design and maintain an internal control system and accounting procedures sufficient to meet the organization's financial reporting objectives.

Condition

Auditor noted several deficiencies in the organization's internal controls over financial reporting during the fiscal year ended August 31, 2007 as follows: bank reconciliations, vendor payments, and recording errors.

Effect

As a result of these deficiencies the organization's ability to prevent or detect misstatements in its financial records is seriously impaired.

Recommendations

The school should review and/or revise its accounting and internal control procedures to eliminate the underlying cause of the reporting errors described above.

Management Response

The organization hired a chief accounting officer with TEA experience to perform a comprehensive review of its internal control procedures.

**Finding: 2007-02**

Criteria

U.S. tax law requires business organizations to pay payroll taxes withheld from employee's wages along with any employer taxes due on a timely basis to the Internal Revenue Service. In addition organizations paying into the Teacher Retirement System are required to make retirement payments on a timely basis.

### Condition

The organization has accumulated a significant liability as of August 31, 2007 for unpaid payroll tax withheld from employee wages. Also the organization has failed to timely pay amounts due to TRS on several occasions.

### Effect

As a result of this condition the organization has incurred additional tax penalties and interest and is subject to all collection action by the IRS. Also, failure to pay TRS on a timely basis has resulted in several holds on payments due from TEA.

### Recommendation

The School should make all required tax deposits and payments on a timely basis.

### Management Response

The organization entered into a payment agreement with the IRS to pay the delinquent payroll taxes. Current tax liabilities are current. TRS payments are being made timely.

**TEXAS SERENITY ACADEMY, INC.**  
**Schedule of Findings and Questioned Costs**  
**For the year ended August 31, 2008**

**I. Summary of Auditor's Results**

- Type of auditor's report issued on the financial statements: Unqualified.
- Significant deficiencies identified that are not considered to be material weaknesses: See below under Part II.
- Material weaknesses identified: None.
- Noncompliance material to the financial statements: None.
- Federal Awards: Auditee did not meet requirements for a Single Audit.

**II. Findings related to the Financial Statements**

None.

**III. Findings and Questioned Costs related to Federal Awards**

None.