

TEXAS SERENITY ACADEMY, INC.

**ANNUAL FINANCIAL
AND COMPLIANCE REPORT
FOR THE FISCAL YEAR
ENDING AUGUST 31, 2012**

**CHARLES H. HOUSTON, CPA
SPRING, TEXAS**

TEXAS SERENITY ACADEMY, INC.

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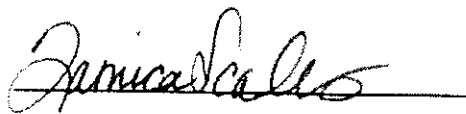
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CERTIFICATE OF THE BOARD
Name of Charter Holder: Texas Serenity Academy, Inc.
Name of School: Texas Serenity Academy Charter School
Harris County District Number: 170-801

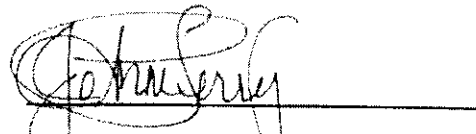
We, the undersigned, certify that the attached Annual Financial and Compliance Report of Texas Serenity Academy, Inc. (FEIN: 76-0575970) was reviewed and

 X Approved Disapproved

for the year ended August 31, 2012 at a meeting of the governing body of said Charter Holder on the 30 day of January 2014.



Signature of Board Secretary



Signature of Board President

Independent Auditor's Report

The Board of Directors
Texas Serenity Academy, Inc.

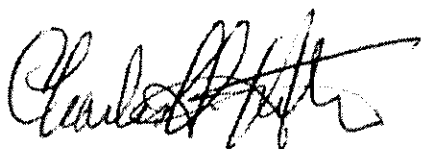
I have audited the accompanying statement of financial position of Texas Serenity Academy, Inc. (TSA) as of August 31, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the School's management. My responsibility 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, 2012, 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 December 23, 2013 on my consideration of the TSA's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of my testing of internal controls 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* and should be considered in assessing the results of my audit.

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Supplemental Schedules are presented for purposes of additional analysis as required by the Texas Education Agency and the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Charles H. Houston, CPA
Spring, Texas
December 23, 2013

TEXAS SERENITY ACADEMY, INC.
Statement of Financial Position
August 31, 2012

Assets

Current Assets

Cash	\$ 145,969
Due from State	170,143
Other Receivables	52,078
Total Current Assets	<u>368,190</u>

Property and Equipment

711,149

Total Assets

1,079,339

Liabilities and Net Assets

Current Liabilities:

Accounts Payable	121,771
Accrued Liabilities	94,392
Note Payable (Current Portion)	196,398
Total Current Liabilities	<u>412,561</u>

Long Term Liabilities:

Note Payable	210,113
Total Liabilities	<u>622,674</u>

Net Assets:

Unrestricted	120,493
Temporarily Restricted	336,172
Total Net Assets	<u>456,665</u>

Total Liabilities and Net Assets

\$ 1,079,339

See the accompanying notes to the financial statements.

TEXAS SERENITY ACADEMY, INC.

Statement of Activities

Year ended August 31, 2012

	Unrestricted	Temporarily Restricted	Total
Revenues and other support:			
Local support:			
Fund-raising activities	\$ 33,000	\$ -	\$ 33,000
Food service sales	6,069	-	6,069
Other income (net)	10,000	-	10,000
Total local support	49,069	-	49,069
State program revenues:			
Foundation School Program	-	3,550,286	3,550,286
Student Success Initiative	-	41,972	41,972
Other state aid	-	11,511	11,511
Total state program revenues	-	3,603,769	3,603,769
Federal program revenues:			
ESEA Title I, Part A - Improving Basic Programs	-	247,951	247,951
IDEA-Part B, Formula	-	20,180	20,180
ESEA Title II, Part A-Teacher, Principal Training	-	23,985	23,985
Title IV, Part B, 21st Century Community Learning Ctrs	-	582,914	582,914
Education Jobs Fund	-	83,118	83,118
ESEA, Title I, Part A-Improving Basic Programs-ARRA	-	3,980	3,980
National School Breakfast and Lunch Program	-	292,494	292,494
Total federal program revenues	-	1,254,622	1,254,622
	49,069	4,858,391	4,907,460
Net assets released from restrictions:			
Satisfaction of program restrictions	4,860,967	(4,860,967)	-
Total revenues and other support	4,910,036	(2,576)	4,907,460
Expenses:			
Program services:			
Instruction and Instructional-Related Services	1,585,181	-	1,585,181
Instructional and School Leadership	373,414	-	373,414
Total program services	1,958,595	-	1,958,595
Support services:			
Administrative Support Services	1,236,276	-	1,236,276
Support Services - Non-Student Based	991,532	-	991,532
Support Services - Student (Pupil)	682,738	-	682,738
Ancillary Services	32,124	-	32,124
Debt Services	8,772	-	8,772
Total support services	2,951,442	-	2,951,442
Total expenses	4,910,036	-	4,910,036
Change in net assets	-	(2,576)	(2,576)
Net assets at beginning of year	120,493	338,748	459,241
Net assets at end of year	\$ 120,493	\$ 336,172	\$ 456,665

See the accompanying notes to the financial statements.

TEXAS SERENITY ACADEMY, INC.

Statement of Cash Flows

Year ended August 31, 2012

Cash flows from operating activities:	
Change in net assets	\$ (2,576)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	208,848
Contribution of capital assets	(33,000)
(Increase) decrease in operating assets:	
Amount due from Texas Education Agency	(36,881)
Other receivables	(8,126)
Increase (decrease) in operating liabilities:	
Accounts payable	(40,049)
Accrued liabilities	2,852
Net cash provided by operating activities	<u>91,068</u>
Cash flows from investing activities:	
Purchase of capital assets	<u>(118,079)</u>
Net cash used in investing activities	<u>(118,079)</u>
Cash flows from financing activities:	
Note payable issued to finance litigation settlement	(175,000)
Principal payments on long-term debt	<u>154,178</u>
Net cash used in financing activities	<u>(20,822)</u>
Net change in cash	(47,833)
Cash at beginning of year	<u>193,812</u>
Cash at the end of year	<u>\$ 145,979</u>
Supplemental schedule of cash flow information:	
Interest paid	<u>\$ 8,772</u>

See the accompanying notes to the financial statements.

TEXAS SERENITY ACADEMY, INC.
Notes to the Financial Statements
August 31, 2012

(1) Summary of Significant Accounting Policies

Organization

Texas Serenity Academy, Inc. (TSA) (a non-profit organization) provides an educational program for "at-risk" elementary and middle school aged students. TSA has one school and did not conduct any other charter or non-charter business. TSA 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. TSA 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. The charter holder is licensed for three (3) locations, but operated only one (1) campus in Houston.

Basis of Presentation

TSA'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 TSA 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.

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.

TSA 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.

Income Taxes

TSA is a nonprofit corporation that is exempt from federal income taxes under Section 501(c) (3) of the U.S. Internal Revenue Code ("Code") and comparable State of Texas law. Accordingly, contributions to TSA are tax deductible within the limitations prescribed by the Code. TSA has also been classified as a publicly-supported organization which is not a private foundation under Section 509(a) of the Code. TSA did not conduct any unrelated business activities in the current fiscal year. Therefore, the TSA has made no provision for federal income taxes in the accompanying fiscal statements.

Generally accepted accounting principles prescribe a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. TSA believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

TSA forms 990, Return of Organization Exempt from Income Tax for years ending 2009, 2010, and 2011 are subject to examination by IRS, generally for three years after they are filed.

(2) Property and Equipment

Property and equipment at August 31, 2012 is as follows:

Vehicles	\$ 78,592
Leasehold Improvements	442,193
Furniture and Equipment	<u>1,025,551</u>
Total Property and Equip.	<u>1,546,336</u>
Less: Accum. Depreciation	<u>(835,187)</u>
Net Property and Equipment	<u><u>\$ 711,149</u></u>

Depreciation expense was charged to Governmental Functions as follows:

Classroom Improvements	\$ 122,209
Facilities Maintenance	48,400
Transportation & Other	<u>38,236</u>
Total Depreciation Expense	<u><u>\$ 208,845</u></u>

(3) Operating Leases

TSA has entered into non-cancelable operating leases for School facilities and equipment through October 2014.

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

<u>YEAR</u>	<u>PAYMENTS</u>
2013	\$ 183,772
2014	143,772
2015	<u>5,962</u>
TOTAL	<u><u>\$ 333,506</u></u>

Total rental expense for the year ended August 31, 2012 was \$193,396.

(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 school's covered payroll. The charter school's employees' contributions to the System for year ended August 31, 2012 were approximately \$147,000.

(5) Health Care Coverage

During the year ended August 31, 2012, employees of the School were covered by a Health Insurance Plan (the "Plan"). The School contributed approximately \$225 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

(6) Commitments and Contingencies

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 the Texas Education Agency and is subject to audit and adjustments. Expenses charged to federal programs are subject to 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, 2012 and through the date of this report, there were several lawsuits and claims pending against TSA. 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 TSA.

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

TSA 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, 2012 TSA's cash balances were all insured by the FDIC.

(8) Campus Locations

TSA operated one Houston campus on Sweetwater Street in Houston, Texas.

(9) Long-Term Debt

Long-term debt at August 31, 2012 consists of the following:

Note payable to an individual, due in monthly installments of \$10,000, due to a settlement in a lawsuit	\$120,000
Note payable to the Internal Revenue Service, due in monthly installments of \$2,500 through November 30, 2012, then \$6,000 through November 30, 2013, then \$7,000 through March 2016, plus interest and penalties, the Superintendent is a personal trust guarantor	271,612
Note payable to an individual, balance was paid Subsequent to August 31, 2012	<u>14,899</u>
Total long-term debt	406,511
Less current installments	<u>(196,398)</u>
	<u>\$210,113</u>

The debt service requirements on the above contractual obligations are as follows:

August 31 Fiscal Year End	Principal			
	Private Lender	IRS	Settlement	Total
2013	\$ 14,898	\$ 61,500	\$ 120,000	196,398
2014	-	81,000	-	81,000
2015	-	84,000	-	84,000
2016	-	45,112	-	45,112
2017	-	-	-	-
Total	<u>\$ 14,898</u>	<u>\$ 271,612</u>	<u>\$ 120,000</u>	<u>\$ 406,510</u>

(10) Subsequent Events

Texas Education Agency guidelines require the audit to be completed by January 28, 2013. The audit is delinquent.

The date through which subsequent events have been evaluated is December 23, 2013 which is the date fieldwork procedures were finished.

SUPPLEMENTAL INFORMATION

TEXAS SERENITY ACADEMY, INC.
Statement of Activities - Expenses By Functions

Year ended August 31, 2012

		<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and other support:				
Local support:				
5740	Fund-raising activities	33,000	\$ -	\$ 33,000
5740	Food service sales	6,069	-	6,069
	Other revenue	10,000	-	10,000
	Total local support	<u>49,069</u>	<u>-</u>	<u>49,069</u>
State program revenues:				
5810	Foundation School Program	-	3,550,286	3,550,286
5820	Student Success Initiative	-	41,972	41,972
5820	Other state aid	-	11,511	11,511
	Total state program revenues	<u>-</u>	<u>3,603,769</u>	<u>3,603,769</u>
Federal program revenues:				
5929	ESEA Title I, Part A - Improving Basic Programs	-	247,951	247,951
5929	IDEA-Part B, Formula	-	20,180	20,180
5929	ESEA Title II, Part A-Teacher, Principal Training	-	23,985	23,985
5929	Title IV, Part B, 21st Century Community Learning Ctrs	-	582,914	582,914
5929	Education Jobs Fund	-	83,118	83,118
5929	ESEA, Title I, Part A-Improving Basic Programs-ARRA	-	3,980	3,980
5921	National School Breakfast and Lunch Program	-	292,494	292,494
	Total federal program revenues	<u>-</u>	<u>1,254,622</u>	<u>1,254,622</u>
		49,069	4,858,391	4,907,460
Net assets released from restrictions:				
	Satisfaction of program restrictions	4,860,967	(4,860,967)	-
	Total revenues and other support	<u>4,910,036</u>	<u>(2,576)</u>	<u>4,907,460</u>
Expenses:				
11	Instruction	1,548,133	-	1,548,133
13	Curriculum Development and Instructional Staff Development	37,048	-	37,048
21	Instructional Leadership	94,980	-	94,980
23	School Leadership	278,433	-	278,433
31	Guidance, Counseling and Evaluation Services	16,700	-	16,700
33	Health Services	47,901	-	47,901
34	Student (Pupil) Transportation	488,756	-	488,756
35	Food Services	303,295	-	303,295
36	Cocurricular/Extracurricular Activities	379,624	-	379,624
41	General Administration	991,532	-	991,532
51	Plant Maintenance and Operations	573,842	-	573,842
52	Security and Monitoring Services	3,260	-	3,260
53	Data Processing Services	105,636	-	105,636
61	Community Services	32,124	-	32,124
71	Debt Service	8,772	-	8,772
	Total expenses	<u>4,910,036</u>	<u>-</u>	<u>4,910,036</u>
	Change in net assets	0	(2,576)	(2,576)
	Net assets at beginning of year	<u>120,493</u>	<u>338,748</u>	<u>459,241</u>
	Net assets at end of year	<u>120,493</u>	<u>\$ 336,172</u>	<u>\$ 456,665</u>

See the accompanying notes to the financial statements.

TEXAS SERENITY ACADEMY, INC.
Schedule of Expenses for Charter School
For the Year Ended August 31, 2012

Expenses

6100	Payroll Costs	\$ 2,575,563
6200	Professional and Contracted Services	1,189,294
6300	Supplies and Materials	616,836
6400	Other Operating Costs	519,571
6500	Debt Service	<u>8,772</u>
	Total	<u>\$ 4,910,036</u>

See the accompanying notes to the financial statements.

TEXAS SERENITY ACADEMY, INC.
Schedule of Capital Assets for Charter School
For the Year Ended August 31, 2012

		Ownership Interest			
		Total	Local	State	Federal
1520	Leasehold Improvements	\$ 442,193	\$ -	\$ 427,867	\$ 14,326
1531	Vehicles	78,592	-	78,592	-
1549	Furniture/Equipment	1,025,551	135,588	293,611	596,352
	Total	\$ 1,546,336	\$ 135,588	\$ 800,070	\$ 610,678

See the accompanying notes to the financial statements.

TEXAS SENERITY ACADEMY, INC.
Budgetary Comparison Schedule for Charter School

Year ended August 31, 2012

	Budgeted Amounts		Actual Amounts	Variance from Final Budget	
	Original	Final			
Revenues and other support:					
Local support:					
5740	Other revenues from Local Sources	\$ 55,500	\$ 34,700	\$ 49,069	\$ 14,369
State program revenues:					
5810	Foundation School Program	3,225,855	3,405,090	3,550,286	145,196
5820	Other State Aid	-	41,972	53,483	11,511
	Total state program revenues	<u>3,225,855</u>	<u>3,447,062</u>	<u>3,603,769</u>	<u>156,707</u>
Federal program revenues:					
5929	Total federal program revenues	205,000	1,491,315	1,254,622	(236,693)
	Total revenues and other support	<u>3,486,355</u>	<u>4,973,077</u>	<u>4,907,460</u>	<u>(65,617)</u>
Expenses:					
11	Instruction	1,039,744	1,802,277	1,548,133	254,144
13	Curriculum Development and Instructional Staff Development	350	75,120	37,048	38,072
21	Instructional Leadership	66,344	70,413	94,980	(24,567)
23	School Leadership	331,284	304,095	278,433	25,662
31	Guidance, Counseling and Evaluation Services	1,220	19,220	16,700	2,520
33	Health Services	5,525	51,621	47,901	3,720
34	Student (Pupil) Transportation	432,409	507,821	488,756	19,065
35	Food Services	217,051	286,190	303,295	(17,105)
36	Cocurricular/Extracurricular Activities	12,201	332,401	379,624	(47,223)
41	General Administration	598,258	920,193	991,532	(71,339)
51	Plant Maintenance and Operations	458,349	520,048	573,842	(53,794)
52	Security and Monitoring Services	1,505	2,505	3,260	(755)
53	Data Processing Services	67,766	96,019	105,636	(9,617)
61	Community Services	-	30,600	32,124	(1,524)
71	Debt Service	-	10	8,772	(8,762)
	Total expenses	<u>3,232,006</u>	<u>5,018,533</u>	<u>4,910,036</u>	<u>108,497</u>
	Change in net assets	254,349	(45,456)	(2,576)	42,880
	Net assets at beginning of year	459,241	459,241	459,241	-
	Net assets at end of year	<u>\$ 713,590</u>	<u>\$ 413,785</u>	<u>\$ 456,665</u>	<u>\$ 42,880</u>

See the accompanying notes to the financial statements.

**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
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, 2012, and have issued my report thereon dated December 23, 2013. 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

Management of TSA is responsible for establishing and maintaining effective 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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of TSA's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the TSA's internal control over financial reporting.

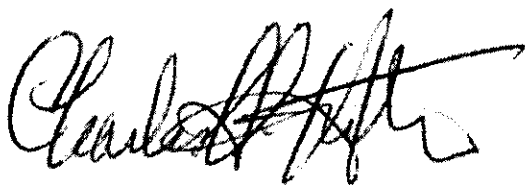
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination 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.

My 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. 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 statements 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 of 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, 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 these specified parties.

A handwritten signature in black ink, appearing to read "Charles H. Houston". The signature is stylized and cursive, with a large initial "C" and "H".

Charles H. Houston, CPA
Spring, Texas
December 23, 2013

**INDEPENDENT AUDITOR'S 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**

To the Board of Directors of
Texas Serenity Academy, Inc.

Compliance

I have audited Texas Serenity Academy, Inc.'s (TSA) 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 TSA's major federal programs for the year ended August 31, 2012. TSA'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 TSA's management. My responsibility is to express an opinion on TSA's compliance based on my audit.

I conducted my 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 I 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 TSA's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of TSA's compliance with those requirements.

In my opinion, TSA 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, 2012.

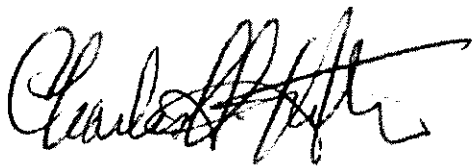
Internal Control over Compliance

Management of TSA 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 my audit, I considered TSA's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing my opinion on compliance 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, I do not express an opinion on the effectiveness of TSA'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.

My 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. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the board of directors, and the Texas Education Agency and other 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.



Charles H. Houston, CPA
Spring, Texas
December 23, 2013

TEXAS SERENITY ACADEMY, INC.
 Schedule of Expenditure of Federal Awards
 For the Year Ended August 31, 2012

<u>Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>United States Department of Education</u>			
Passed Through TEA:			
ESEA Title I Part A	84.010	S010A090043	\$ 247,951
Title I Part A Improving Basic	84.398	5389A090043	2,880
IDEA-B Formula SSA	84.027	H027A090008	20,180
Title II, Part A	84.367	S367A090041	23,985
Title IV Part B 21st CCLC Cycle 7 Year 1	84.287	S287C100044	579,766
Education Jobs Fund	84.410	S410A100044	83,118
Total TEA			<u>957,880</u>
<u>United States Department of Agriculture</u>			
Passed through TEA			
National School Lunch	10.555	71401101	220,229
School Breakfast Program	10.553	71301101	78,411
Total TEA			<u>298,640</u>
Total Expenditures of Federal Awards			<u>\$ 1,256,520</u>

See the accompanying notes to the schedule of expenditure of federal awards.

TEXAS SERENITY ACADEMY, INC.
Notes to the Schedule of Expenditure of Federal Awards
For the Year Ended August 31, 2012

Note 1: Basis for Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Texas Serenity Academy, Inc. (TSA) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations. Therefore some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements. For all federal programs, TSA used the net asset classes and codes specified by the Texas Education Agency in the *Special Supplement to Financial Accounting and Reporting, Nonprofit Charter School Chart of Accounts*. Temporarily restricted net asset codes are used to account for resources restricted to or designated for specific purposes by a grantor. Federal and state financial assistance is generally accounted for in temporarily restricted net asset codes.

Note 2: Relationship to Financial Report Submitted to Grantor Agencies

Amounts reflected in the financial reports filed with grantor agencies for the programs and the supplementary schedules may not agree because of accruals which would be included in the next report filed with the agencies, matching requirements not included in the Schedule of Federal Awards and due to different program year-ends.

Note 3: Reconciliation to Financial Statements

The following reconciles federal award expenditures as included in the accompanying schedule to the expenditures reported in the financial statements of TSA as of August 31, 2012.

Government grants and contracts per	
The statement of Activities	\$1,254,522
Released from Restricted Funds	<u>1,998</u>
Total expenditures per the Schedule of	
Expenditures of Federal Awards	<u>\$1,256,520</u>

Note 4: Commitments and Contingencies

The programs administered by TSA have complex compliance requirements, and should state or federal auditors discover areas of noncompliance. TSA funds may be subject to refund if so determined by the Texas Education Agency or the grantor agency.

TEXAS SERENITY ACADEMY, INC.
Schedule of Findings and Questioned Costs
For the year ended August 31, 2012

I. Summary of Auditor's Results

Financial Statements

- Type of auditor's report issued on the financial statements: Unqualified.
- Significant deficiency identified that is not considered to be material weakness: No
- Material weaknesses identified: No
- Noncompliance material to the financial statements: No

Federal Awards

- Significant deficiencies in internal controls over major programs disclosed by the audit of the financial statements: None.
- a. Significant deficiencies that were material weaknesses: None.
- Type of auditor's report issued on compliance for major programs: Unqualified.
- Findings disclosed by the audit of the financial statements which the auditor is required to report under OMB A-133: No
- Major Programs:
 Title IV Part B, 21st Century Community Learning Centers
 CFDA 84.287C
 ESEA Title I Part A
 CFDA 84.010A
- The dollar threshold used to distinguish between Type A and Type B programs: \$300,000.
- Auditee qualified as a low-risk auditee: Yes

II. Findings related to the Financial Statements

None

III. Findings and Questioned Costs related to Federal Awards

None.

TEXAS SERENITY ACADEMY, INC.
Schedule of Findings and Questioned Costs
For the year ended August 31, 2012

IV. Findings and Questioned Costs related to State Awards

Finding: 2012-1

Condition

TSA did not spend 52% (\$256,169) of its \$492,633 proposed State Compensatory Education Grant Allotment. \$49,522 or 12% was actually expended in the current fiscal year.

Criteria

The Texas Education Code, paragraph 42,152, specifies guidance for use of school block grant funds allocated for compensatory education. These funds are to be used to fund supplemental programs and services designed to eliminate any disparity in performances on assessment instrument's, or disparities in the rates of high school completion between at risk of dropping out as defined by Subsection B, Chapter 39, Section 20.081. The TEA has established an annual spending goal of 52% of the School's proposed Block Grant allotment.

Recommendation

TSA should establish a system of routine expenditure reviews to ensure that spending goals are accomplish for each school year for compensatory education programs.

Corrective Action Plan

The Board has appointed the Superintendent the responsibility of implementing the auditor's recommendation by end of school year 2013.

TEXAS SERENITY ACADEMY, INC.
Schedule of Status of Prior Year Findings
For the year ended August 31, 2012

Finding: 2011-2

TSA did not spend 55% (\$269,974) of its \$489,962 proposed State Compensatory Education Grant Allotment in fiscal year 2010-2011.

STATUS

TSA established policies to make sure these problems would not happen again in fiscal year 2011-2012; however, TSA had the same problem again in fiscal year 2011-2012.

Finding: 2011-3

TSA did not spend 55% (\$16,073) of its \$29,224 proposed State Compensatory Education Grant Allotment in fiscal year 2010-2011.

STATUS

TSA established policies to make sure these problems would not happen again in fiscal year 2011-2012; however, TSA had the same problem again in fiscal year 2011-2012.