

TEXAS SERENITY ACADEMY, INC.

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

FOR THE YEAR ENDED AUGUST 31, 2014

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TEXAS SERENITY ACADEMY, INC.
(Federal Employer Identification Number 76-0575970)
170-801

CERTIFICATE OF BOARD
August 31, 2014

We, the undersigned, certify that the attached Annual Financial and Compliance Report of Texas Serenity Academy, Inc. was reviewed and X approved _____ disapproved for the year ended August 31, 2014, at a meeting of the governing body of said charter holder on the 22 day of JANUARY, 2015.



Signature of Board Secretary



Signature of Board President

GOMEZ & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Texas Serenity Academy, Inc. (the Academy) (a nonprofit organization), which comprise the statement of financial position as of August 31, 2014, and the related statements of activities and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Academy as of August 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

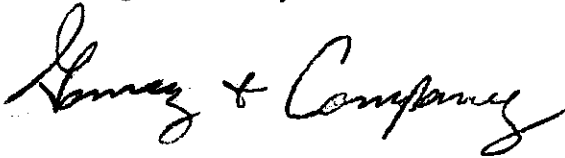
Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, 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. The information has been subjected to the auditing procedures applied in the audit of the 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 our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2015, on our consideration of the Academy'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 the Academy's internal control over financial reporting and compliance.

A handwritten signature in cursive script, likely representing the auditing firm, is written in black ink. The signature is stylized and appears to read "Loney & Company".

Houston, TX
January 16, 2015

TEXAS SERENITY ACADEMY, INC.
STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2014

ASSETS:	
Current Assets:	
Cash	\$ 128,714
Grants Receivable	114,864
Other Receivables	<u>159,911</u>
Total Current Assets:	<u>403,489</u>
Property, Plant & Equipment:	
Building and Improvements	226,557
Furniture and Equipment	962,996
Vehicles	<u>611,247</u>
	1,800,800
Less: Accumulated Depreciation	<u>(1,300,694)</u>
Net Property, Plant & Equipment:	<u>500,106</u>
Total Assets:	<u>\$ 903,595</u>
LIABILITIES & NET ASSETS:	
Current Liabilities:	
Accounts Payable	\$ 116,182
Accrued Liabilities	25,251
Accrued Wages	36,190
Payroll Taxes Payable	1,075
Deferred Revenue	20,356
Line of Credit	96,110
Current Portion of Notes Payable	<u>92,900</u>
Total Current Liabilities	<u>388,064</u>
Long-term Liabilities:	
Notes Payable Net of Current Portion	<u>163,429</u>
Total Liabilities	<u>551,493</u>
Net Assets:	
Unrestricted	229,889
Temporarily Restricted	<u>122,213</u>
Total Net Assets	<u>352,102</u>
Total Liabilities and Net Assets	<u>\$ 903,595</u>

See accompanying notes to financial statements.

TEXAS SERENITY ACADEMY, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2014

	Unrestricted	Temporarily Restricted	Total
REVENUES			
Local Support:			
5740 Other Revenues from Local Sources	\$ 72,848	\$	\$ 72,848
5750 Revenue from Curricular	6,408		6,408
Total Local Support	<u>79,256</u>		<u>79,256</u>
State Program Revenues			
5810 Foundation School Program Act Revenues		3,512,668	3,512,668
5820 State Program Revenues Distributed by Texas Education Agency		<u>27,428</u>	<u>27,428</u>
Total State Program Revenues		<u>3,540,096</u>	<u>3,540,096</u>
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		1,298,184	1,298,184
5930 Federal Revenues Distributed Through Government Entities Other Than State or Federal		<u>8,409</u>	<u>8,409</u>
Total Federal Program Revenues		<u>1,306,593</u>	<u>1,306,593</u>
Net assets released from restrictions:			
Restrictions satisfied by payments	<u>4,891,537</u>	<u>(4,891,537)</u>	
Total Revenues	<u>4,970,793</u>	<u>(44,848)</u>	<u>4,925,945</u>
EXPENSES			
11 Instruction	1,853,248		1,853,248
13 Curriculum Development and Instructional Staff Development	116,451		116,451
21 Instructional Leadership	216,103		216,103
23 School Leadership	307,588		307,588
31 Guidance, Counseling, and Evaluation Services	25,330		25,330
33 Health Services	43,254		43,254
34 Student (Pupil) Transportation	440,991		440,991
35 Food Service	316,427		316,427
36 Cocurricular/Extracurricular Activities	292,232		292,232
41 General Administration	581,893		581,893
51 Plant Maintenance and Operations	716,848		716,848
53 Data Processing Services	12,707		12,707
61 Community Services	29,538		29,538
71 Debt Services	<u>18,183</u>		<u>18,183</u>
Total Expenses	<u>4,970,793</u>		<u>4,970,793</u>
Change in Net Assets		<u>(44,848)</u>	<u>(44,848)</u>
Net Assets at Beginning of Year as Restated	<u>229,889</u>	<u>167,061</u>	<u>396,950</u>
Net Assets, End of Year	<u>\$ 229,889</u>	<u>\$ 122,213</u>	<u>\$ 352,102</u>

See accompanying notes to financial statements.

TEXAS SERENITY ACADEMY, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2014

Cash Flows From Operating Activities	
Change in net assets	\$ (44,848)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation	209,811
(Increase) decrease in Grants Receivable	(8,772)
(Increase) decrease in Other Receivables	15,165
(Increase) decrease in Prepaid Expenses	36,360
Increase (decrease) in Accounts Payable	12,670
Increase (decrease) in Accrued Liabilities	(52,295)
Increase (decrease) in Accrued Wages	36,190
Increase (decrease) in Payroll Taxes Payable	(14,897)
Increase (decrease) in Deferred Revenue	<u>(25,467)</u>
Total Adjustments	<u>208,765</u>
Net Cash Provided (Used) by Operating Activities	<u>163,917</u>
Cash Flows From Investing Activities	
Purchase of Fixed Assets	<u>(209,036)</u>
Net Cash Provided (Used) by Investing Activities	<u>(209,036)</u>
Cash Flows From Financing Activities	
Proceeds from Line of Credit	74,789
Proceeds from Long-Term Debt	117,683
Repayment of Line Of Credit	(55,679)
Repayment of Long-Term Debt	<u>(72,680)</u>
Net Cash Provided (Used) by Financing Activities	<u>64,113</u>
NET INCREASE (DECREASE) IN CASH	<u>18,994</u>
CASH AT BEGINNING OF YEAR	<u>109,720</u>
CASH AT END OF YEAR	<u>\$ 128,714</u>
<u>Supplemental Disclosures</u>	
Cash Paid During the Year for:	
Interest	<u>\$ 18,183</u>

See accompanying notes to financial statements.

TEXAS SERENITY ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2014

A. Organization:

Texas Serenity Academy, Inc. (the Academy) (a Texas non-profit corporation) provides educational services for students from pre-kindergarten through twelfth grade. The Academy operates under an enrollment charter granted by the State of Texas Board of Education. The Charter expired on July 31, 2008. The Academy has applied for renewal of its charter while it continues to operate. However, as of August 31, 2014 the renewal is still pending. The Academy is part of the public school system of the State of Texas and is therefore entitled to distribution from the State's available school fund. The Academy does not have the authority to impose ad valorem taxes or to charge tuition; however, the Academy charges fees for its extended day program, which is an after school service.

The charter holder Texas Serenity Academy, Inc. only operates a single charter school and does not conduct any other charter or non-charter activities.

B. Summary of Significant Accounting Policies:

BASIS OF PRESENTATION

The Organization reports its financial information based on the *Financial Accounting Standards Board Accounting Standards Codification 958 Not-for-Profit Entities-205 Presentation of Financial Statements*. Under *FASB ASC 958-205*, an Organization 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. In addition, the Corporation is required to present a statement of cash flows.

Unrestricted net assets

Unrestricted net assets include unrestricted resources which represent the portion of funds that are available for the operating objectives of the Organization.

Temporarily restricted net assets

Temporarily restricted net assets consist of donor restricted contributions and grants. Amounts restricted by donors for a specific purpose are deemed to be earned and reported as temporarily restricted revenue, when received, and such unexpended amounts are reported as temporarily restricted net assets at year-end. When the donor restriction expires, that is, when a stipulated time or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as "net assets released from restrictions."

Permanently restricted net assets

Permanently restricted net assets consist of donor restricted contributions, which are required to be held in perpetuity. Income from the assets held is available for either general operations or specific purposes, in accordance with donor stipulations.

SUPPORT AND REVENUE

Support and revenue are recorded based on the accrual method.

TEXAS SERENITY ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2014

B. Summary of Significant Accounting Policies: (continued)

CASH DONATIONS AND DONATED SERVICES

Cash donations are considered to be available for unrestricted use unless specifically restricted by the donor. No amounts have been reflected in the financial statements for donated services since no objective basis is available to measure the value of such donations. Nevertheless a substantial number of volunteers have donated their time in connection with the program service and administration of the Organization.

CONTRIBUTIONS

In accordance with *Financial Accounting Standards Board Accounting Standards Codification 958 Not-for-Profit Entities-605 Revenue* Recognition, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

PROPERTY AND EQUIPMENT

Property and equipment purchased by the Academy are recorded at cost. Donations of property and equipment are recorded at their fair value at the date of the gift. All assets acquired with a value in excess of \$1,000 are recorded as fixed assets. Depreciation is provided on the straight-line method based upon estimated useful lives of 3 to 30 years based on classification of property and equipment. Gains or losses on retired or sale of property and equipment are reflected in income for the period. The proceeds from such sales which are not legally required or expected to be reinvested in property and equipment are transferred to unrestricted net assets.

PLEDGES AND ACCOUNTS RECEIVABLE

Contributions are recognized when the donor makes a promise to give to the Academy, which is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

No provision has been made for uncollectible promises to give and accounts receivable as of the statement of financial position date, given that none have been identified.

INCOME TAXES

The Academy qualifies as a tax-exempt organization under section 501 (c) (3) of the Internal Revenue Code and, therefore, has no provision for income taxes.

TEXAS SERENITY ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2014

B. Summary of Significant Accounting Policies: (continued)

CASH AND CASH EQUIVALENTS

The Academy considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. All accounts are insured by the Federal Deposit Insurance Corporation and the National Credit Union Administration up to a limited amount of \$250,000 per account. As of August 31, 2014, Texas Serenity has not incurred any losses on amounts held in depository accounts in excess of federally insured limits.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires the Academy's management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

C. Budget:

The official school budget is prepared for adoption for required Governmental Fund Types. The annual budget is adopted on a basis consistent with generally accepted accounting principles and is formally adopted by the Board of Directors.

D. Pension Plan:

The charter school contributes to the Teacher Retirement System of Texas (TRS), 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. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government code, Title 8, Chapters 803 and 805 respectively. The Texas State legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701 or by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report form the TRS Internet website, www.trs.state.tx.us, under the TRS Publications Heading.

Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) the state constitution requires the legislature to establish a member contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 1 years, the period would be increased by such action.

TEXAS SERENITY ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2014

D. Pension Plan: (continued)

State law provides for a member contribution rate of 6.4% for fiscal year 2014, 6.7% for fiscal year 2015, 7.2% for fiscal year 2016, and 7.7% for fiscal year 2017, and a state contribution rate of 6.8% for fiscal years 2014 and 2015. The charter school's employee contributions to the system for the year ending August 31, 2014 were \$160,855 equal to the required contributions for the year. Other contributions made from federal and private grants and from the charter school for salaries above the statutory minimum for the year ending August 31, 2014 was \$51,753.

E. Notes Receivable:

The Academy has a Restitution Agreement of \$144,741 due from the Superintendent. The note is receivable in monthly installments of \$1,000, interest free and matures September 1, 2022. As of August 31, 2014, the remaining balance is \$127,241.

The Academy also has a Real Estate Repayment Note of \$34,220 due from a landlord for un-allowed prepaid rent payments. The note is receivable in monthly installments of \$551.11, beginning November 1, 2013 with an interest rate of 5.0% and matures November 1, 2019. As of August 31, 2014, the remaining balance is \$32,670.

F. Operating Lease Commitment:

The Academy is currently leasing its building, office space, and equipment on non-cancelable operating leases.

The Academy's minimum annual lease commitments are as follows:

<u>Year Ending August 31,</u>	<u>Amount</u>
2015	\$ 264,492
2016	252,000
2017	264,000
	<u>\$ 780,492</u>

Operating lease expense amounted to \$247,376 for the year ended August 31, 2014.

G. Notes Payable:

The Academy's obligations under notes payable consists of the following:

Note payable to Daimler Truck Financial. The note is dated April 25, 2014, at a 5.1% interest rate, payable in 5 installments of \$26,802 paid on April 25 for the next 5 years and a face amount of \$117,683. The date of maturity is April 25, 2019. The note is secured by vehicles.

\$ 115,716

TEXAS SERENITY ACADEMY, INC.
 NOTES TO FINANCIAL STATEMENTS
 AUGUST 31, 2014

G. Notes Payable: (continued)

Monthly installment agreement payable to the Internal Revenue Service for unpaid payroll taxes, the agreement is dated June 11, 2013, and has a face amount of \$283,444. This amount does not include penalties and interest, as of August 31, 2014.

	140,613
Total notes payable	256,329
Less: Current portion notes payable	92,900
Notes payable net of current portion	\$ 163,429

Maturities of notes payable over the next five years are as follows:

Year ending August 31,	Principal	Interest	Total
2015	\$ 92,900	\$ 5,902	\$ 98,802
2016	90,579	4,836	95,415
2017	23,087	3,715	26,802
2018	24,264	2,538	26,802
2019	25,499	1,302	26,801
Total	\$ 256,329	\$ 18,293	\$ 274,622

H. Revolving Line of Credit:

The Academy has a \$100,000 revolving line of credit with a bank. All advances on the credit line are payable on demand and carry an interest rate of Prime plus 11.25%. The credit line is unsecured, but guaranteed by Superintendent. The balance at August 31, 2014 is \$96,110.

I. Deferred Revenue:

Deferred revenue results from advances from government agencies, which have been restricted for a specific purpose. Revenue is recognized only to the extent that related expenses have been incurred. The following grant payments received were deferred at August 31, 2014:

Grant Description	Amount
Title I, Part A-126101011700801	\$ 860
SSI Grant-120240177110906	19,496
Total	\$ 20,356

J. Health Care Coverage:

During the year ended August 31, 2014 employees of the Academy were covered by a health insurance plan. The school contributed \$225 per month per employee, and \$1,323 per month for Superintendent (depending upon coverage selected) to the plan and employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer.

TEXAS SERENITY ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2014

K. Temporarily Restricted Net Assets:

Temporarily restricted net assets at August 31, 2014, are available for the following periods:

Periods after August 31, 2014	\$ 122,213
Total restricted funds	<u>\$ 122,213</u>

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

Texas Education Agency	\$ 4,891,537
Total restrictions released	<u>\$ 4,891,537</u>

L. Prior Period Adjustment:

During the year ended August 31, 2014 two adjustments were made to the Academy's net assets. These changes were due to accounting errors in previous years.

The adjustments are as follows:

Beginning Net Assets	\$ 400,158
Correct prior year payroll liabilities	<u>(3,208)</u>
Restated Beginning Net Assets	<u>\$ 396,950</u>

The result of these adjustments decreased net assets by \$3,208 at August 31, 2013.

M. Commitments and Contingencies:

The charter 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 it is subject to audit and adjustment. Expenses charged to federal programs are subject to audit and adjustment by the grantor agency. The programs administered by the charter school have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, charter school funds may be subject to refund if so determined by the Texas Education Agency or the grantor agency. The school is economically dependent on these charter school funds.

N. Lawsuits & Uncertainties:

The Academy, Inc. is subject to claims and lawsuits that arise in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position of the company.

O. Evaluation of Subsequent Events:

The Organization has evaluated subsequent events through January 16, 2015, the date which the financial statements were available to be issued.

GOMEZ & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

5177 RICHMOND AVE. SUITE 1100

HOUSTON, TEXAS 77056

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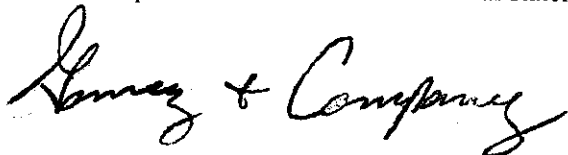
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INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

To The Board of Directors of
Texas Serenity Academy, Inc.
Houston, Texas

We have audited the financial statements of Texas Serenity Academy, Inc. (the Academy) as of and for the year ended August 31, 2014, and have issued our report thereon dated January 16, 2015, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The Schedules for Individual Charter School are presented for purposes of additional analysis and are not a required part of the consolidated 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 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 our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Houston, TX
January 16, 2015

TEXAS SERENITY ACADEMY, INC.

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2014

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$	\$ 128,714	\$
1520 Building and Improvements		212,231	14,326
1531 Vehicles		611,247	
1549 Furniture and Equipment	135,588	305,011	522,397
Total Property and Equipment	<u>\$ 135,588</u>	<u>\$ 1,257,203</u>	<u>\$ 536,723</u>

See accompanying notes to financial statements.

TEXAS SERENITY ACADEMY, INC.
SCHEDULE OF EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2014

Expenses	
6100 Payroll Costs	\$ 2,766,806
6200 Professional and Contracted Services	1,279,671
6300 Supplies and Materials	480,527
6400 Other Operating Costs	425,606
6500 Debt	18,183
Total Expenses	<u>\$ 4,970,793</u>

See accompanying notes to financial statements.

TEXAS SERENITY ACADEMY, INC.
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED AUGUST 31, 2014

	<u>Budgeted Amounts</u>		Actual Amounts	Variance from Final Budget
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 2,000	\$ 75,125	\$ 72,848	\$ (2,277)
5750 Food Service Sales	<u>3,250</u>	<u>5,000</u>	<u>6,408</u>	<u>1,408</u>
Total Local Support	5,250	80,125	79,256	(869)
State Program Revenues:				
5810 Foundation School Program Act Revenues	3,439,195	3,472,766	3,512,668	39,902
5820 State Program Revenues Distributed by Texas Education Agency			<u>27,428</u>	<u>27,428</u>
Total State Program Revenues	<u>3,439,195</u>	<u>3,472,766</u>	<u>3,540,096</u>	<u>67,330</u>
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	220,000	1,408,872	1,298,184	(110,688)
5930 Federal Revenues Distributed Through Gov Entities Other Than State or Federal			<u>8,409</u>	<u>8,409</u>
Total Federal Program Revenues	<u>220,000</u>	<u>1,408,872</u>	<u>1,306,593</u>	<u>(102,279)</u>
Total Revenues	3,664,445	4,961,763	4,925,945	(35,819)
EXPENSES				
11 Instruction	1,169,954	1,886,182	1,853,248	32,934
12 Instructional Resources and Media Services	10	10		10
13 Curriculum Development and Instructional Staff Development	350	58,754	116,451	(57,697)
21 Instructional Leadership	63,142	12,402	216,103	(203,701)
23 School Leadership	295,510	400,262	307,588	92,674
31 Guidance, Counseling, and Evaluation Services	1,220	38,220	25,330	12,890
33 Health Services	45,430	42,352	43,254	(902)
34 Student (Pupil) Transportation	359,225	475,593	440,991	34,602
35 Food Service	255,322	307,258	316,427	(9,169)
36 Cocurricular/Extracurricular Activities	10,650	278,250	292,232	(13,982)
41 General Administration	562,122	735,083	581,893	153,190
51 Plant Maintenance and Operations	436,050	639,011	716,848	(77,837)
52 Security and Monitoring Services	1,505	1,505		1,505
53 Data Processing Services	71,416	23,050	12,707	10,343
61 Community Services		35,000	29,538	5,462
71 Debt Services	5,000	18,000	18,183	(183)
81 Fund Raising	10	10		10
Total Expenses	<u>3,276,916</u>	<u>4,950,942</u>	<u>4,970,793</u>	<u>(19,851)</u>
Change in Net Assets	387,529	10,821	(44,848)	(55,669)
Net Assets at Beginning of Year as Restated	<u>396,950</u>	<u>396,950</u>	<u>396,950</u>	
Net Assets, End of Year	<u>\$ 784,479</u>	<u>\$ 407,771</u>	<u>\$ 352,102</u>	<u>\$ (55,669)</u>

See accompanying notes to financial statements.

GOMEZ & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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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
Texas Serenity Academy, Inc.
Houston, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Texas Serenity Academy, Inc. (the Academy) (a nonprofit organization), which comprise the statement of financial position as of August 31, 2014, 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 January 16, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

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

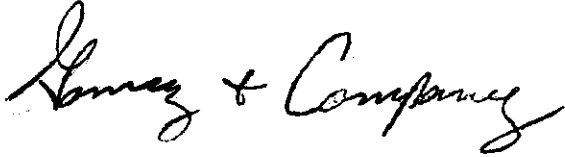
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Ramirez & Company". The signature is written in black ink and is positioned above the typed text.

Houston, TX
January 16, 2015

GOMEZ & COMPANY

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To The Board of Directors of
Texas Serenity Academy, Inc.
Houston, Texas

Report on Compliance for Each Major Federal Program

We have audited Texas Serenity Academy, Inc. (the Academy.)'s (a nonprofit organization) 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 the Academy's major federal programs for the year ended August 31, 2014. The Academy'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 the Academy'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 the Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Academy 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 August 31, 2014.

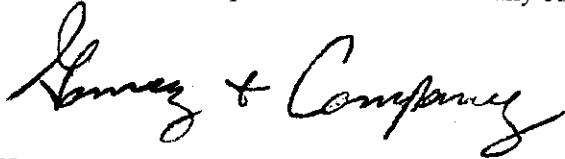
Report on Internal Control Over Compliance

Management of the Academy is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Academy'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 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.

A handwritten signature in cursive script that reads "Ramirez & Company". The signature is written in black ink and is positioned above the typed name and date.

Houston, TX
January 16, 2015

TEXAS SERENITY ACADEMY, INC.
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED AUGUST 31, 2014

Summary of Audit Results

1. The auditor's report expresses an unmodified opinion on the financial statements.
2. No significant deficiencies or material weaknesses on internal control over financial statements.
3. No instances of noncompliance material to the financial statements, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No significant deficiencies or material weaknesses on internal control over major federal award programs.
5. The auditor's report on compliance for the major federal award programs expresses an unmodified opinion on all major federal programs.
6. The audit did not disclose any audit findings which are required to be reported under section .510 (a) of OMB A-133
7. Major programs:
 - U.S. Department of Agriculture
 - Passed through the Texas Education Agency
 - 21st CCLC
 - CFDA Number 84.287C
8. A \$300,000.00 threshold was used to distinguish between Type A and Type B programs as described in section .520 (b) of OMB A-133.
9. The Academy does qualify as a low-risk auditee.

<u>Current Year Findings</u>	<u>Questioned Costs</u>
No audit findings were noted as per governmental auditing standards and Section 510 (a) of OMB A-133	<u>\$ -0-</u>
<u>Summary Schedule of Prior Year Findings</u>	
No audit findings were noted as per Section .300 (f) of OMB A-133 for the year ended August 31, 2013.	<u>\$ -0-</u>

TEXAS SERENITY ACADEMY, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2014

Federal Grantor/ Pass - Through Grantor/ Program Title	Federal CFDA Number	Pass - Through Entity Identifying Number	Federal Expenditures
FEDERAL ASSISTANCE:			
<u>U.S. Department of Education</u>			
Passed - Through Texas Education Agency:			
ESEA, Title I, Part A	84.010A	136101011700801	25,245
ESEA, Title I, Part A	84.010A	146101001170801	217,885
ESEA, Title I, Part A Priority and Focus	84.010A	14610112170801000	9,882
ESEA, Idea-B Formula	84.027A	146600011708016000	86,910
ESEA, Title II, Part A	84.367A	13694501170801	1,516
ESEA, Title II, Part A	84.367A	13694501170801	41,247
ESEA, Title II, Part A	84.367A	14694501170801	1,725
21ST CCLC Cycle 7 Year 3	84.287C	146950167110039	607,488
Total passed through Texas Education Agency			<u>991,898</u>
Total U.S. Department of Education			<u>991,898</u>
<u>U.S. Department of Agriculture</u>			
Passed - Through Texas Education Agency			
Federal Food Service Reimbursement			
Breakfast	10.553	71401301	7,247
Breakfast	10.553	71401401	53,433
Lunch	10.555	71301301	25,573
Lunch	10.555	71301401	194,566
			<u>280,819</u>
Total U.S. Department of Agriculture			<u>280,819</u>
Total Expenditures of Federal Awards			<u>\$ 1,272,717</u>

TEXAS SERENITY ACADEMY, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying schedule of federal awards (the Schedule) includes federal grant activity of the Academy under programs of the federal government for the year ended August 31, 2014. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operation of the Academy it is not intended to and does not present the financial position, changes in net assets or cash flows the Academy.

Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

**Texas Serenity Academy
Budget Variance Explanation
For the year ended August 31, 2014**

		Budgeted Amounts		Actual	over / under Variance	
		Original	Final			
5750	Food Service Sales	3,250	5,000	6,408	1,408	Food sales were higher than expected
5820	State Program Revenues			27,428	27,428	Payment from textbook fund was inadvertently left out of the budget
5930	SHARS Revenue			8,409	8,409	SHARS cost report review was not complete when final budget was prepared
13	Curriculum Development	350	58,754	116,451	(57,697)	Coding changes recommended by the HCDE in December were made during the audit process
21	Instructional Administration	63,142	12,402	216,103	(203,701)	Coding changes recommended by the HCDE in December were made during the audit process
23	Instructional Leadership	295,510	400,262	307,588	92,674	Coding changes recommended by the HCDE in December were made during the audit process
31	Counseling	1,220	38,220	25,330	12,890	Grant expenditures were less than expected; amounts were rolled forward in the 14-15 application.
41	General Administration	562,122	735,083	581,893	153,190	Coding changes recommended by the HCDE in December were made during the audit process
51	Plant Maintenance and Operations	436,050	639,011	716,848	(77,837)	Function was under-estimated in final budget
52	Security and Monitoring Services	1,505	1,505	0	1,505	No security services were needed for the year
53	Data Processing	71,416	23,050	12,707	10,343	Function was over-estimated in final budget
61	Community Services	0	35,000	29,538	5,462	Payroll was less than budgeted