

TEXAS SERENITY ACADEMY, INC.
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED AUGUST 31, 2016

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

CERTIFICATE OF BOARD
August 31, 2016

We, the undersigned, certify that the attached Annual Financial and Compliance Report of Texas Serenity Academy, Inc. was reviewed and approved disapproved for the year ended August 31, 2016, at a meeting of the governing body of said charter holder on the 25 day of January, 2017.

Kenneth M. White - Vice President
~~Signature of Board Secretary~~

Alfred J. Williams
Signature of Board President

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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, 2016, and the related statements of activities, functional expenses, 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, 2016, 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.

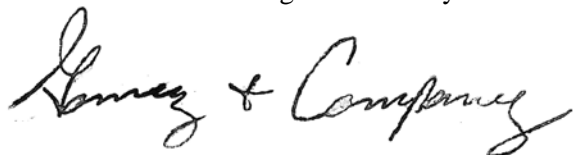
Other Matters

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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 25, 2017, 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 that reads "Ramirez & Company". The signature is written in black ink and is positioned above the typed name and date.

Houston, TX
January 25, 2017

TEXAS SERENITY ACADEMY, INC.
STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2016

ASSETS:	
Current Assets:	
Cash	\$ 109,573
Grants Receivable	92,922
Other Receivables	267,181
Prepaid Expenses	<u>28,855</u>
Total Current Assets:	<u>498,531</u>
Property, Plant & Equipment:	
Building and Improvements	470,268
Furniture and Equipment	982,125
Vehicles	<u>500,930</u>
	1,953,323
Less: Accumulated Depreciation	<u>(1,526,836)</u>
Net Property, Plant & Equipment:	<u>426,487</u>
 Total Assets:	 <u><u>\$ 925,018</u></u>
LIABILITIES & NET ASSETS:	
Current Liabilities:	
Accounts Payable	\$ 295,434
Accrued Liabilities	55,798
Accrued Wages	23,567
Payroll Taxes Payable	84
Deferred Revenue	19,496
Line of Credit	98,033
Current Portion of Notes Payable	<u>324,585</u>
Total Current Liabilities	<u>816,997</u>
Long-term Liabilities:	
Notes Payable Net of Current Portion	<u>98,189</u>
Total Liabilities	<u>915,186</u>
Net Assets:	
Unrestricted	<u>9,832</u>
Total Net Assets	<u>9,832</u>
 Total Liabilities and Net Assets	 <u><u>\$ 925,018</u></u>

See accompanying notes to financial statements.

TEXAS SERENITY ACADEMY, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2016

	Unrestricted	Temporarily Restricted	Total
REVENUES			
Local Support:			
5740 Other Revenues from Local Sources	\$ 147,359	\$	\$ 147,359
5750 Revenue from Curricular	1,774		1,774
Total Local Support	149,133		149,133
State Program Revenues			
5810 Foundation School Program Act Revenues		3,593,806	3,593,806
5820 State Program Revenues Distributed by Texas Education Agency		27,594	27,594
Total State Program Revenues		3,621,400	3,621,400
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		1,220,137	1,220,137
5930 Federal Revenues Distributed Through Government Entities Other Than State or Federal		11,811	11,811
Total Federal Program Revenues		1,231,948	1,231,948
Net assets released from restrictions:			
Restrictions satisfied by payments	4,853,348	(4,853,348)	
Total Revenues	5,002,481		5,002,481
EXPENSES			
11 Instruction	1,872,235		1,872,235
13 Curriculum Development and Instructional Staff Development	28,399		28,399
21 Instructional Leadership	182,101		182,101
23 School Leadership	297,833		297,833
31 Guidance, Counseling, and Evaluation Services	17,700		17,700
33 Health Services	34,752		34,752
34 Student (Pupil) Transportation	524,655		524,655
35 Food Service	344,274		344,274
36 Cocurricular/Extracurricular Activities	328,639		328,639
41 General Administration	553,737		553,737
51 Plant Maintenance and Operations	778,542		778,542
53 Data Processing Services	47,375		47,375
61 Community Services	40,766		40,766
71 Debt Services	59,507		59,507
Total Expenses	5,110,516		5,110,516
Change in Net Assets	(108,035)		(108,035)
Net Assets at Beginning of Year, as restated	117,867		117,867
Net Assets, End of Year	\$ 9,832	\$	\$ 9,832

See accompanying notes to financial statements.

TEXAS SERENITY ACADEMY, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2016

Cash Flows From Operating Activities	
Change in net assets	\$ (108,035)
Adjustments to reconcile change in net assets to net	
Cash provided (used) by operating activities:	
Depreciation	112,670
(Increase) decrease in Grants Receivable	(49,525)
(Increase) decrease in Other Receivables	(110,097)
(Increase) decrease in Prepaid Expenses	(28,855)
Increase (decrease) in Accounts Payable	221,281
Increase (decrease) in Accrued Liabilities	6,597
Increase (decrease) in Accrued Wages	(48,695)
Increase (decrease) in Payroll Taxes Payable	<u>(23,055)</u>
Total Adjustments	<u>80,321</u>
Net Cash Provided (Used) by Operating Activities	<u>(27,714)</u>
Cash Flows From Investing Activities	
Purchase of Fixed Assets	<u>(197,397)</u>
Net Cash Provided (Used) by Investing Activities	<u>(197,397)</u>
Cash Flows From Financing Activities	
Proceeds from Line of Credit	59,125
Proceeds from Long-Term Debt	354,183
Repayment of Line Of Credit	(41,032)
Repayment of Long-Term Debt	<u>(92,009)</u>
Net Cash Provided (Used) by Financing Activities	<u>280,267</u>
NET INCREASE (DECREASE) IN CASH	<u>55,156</u>
CASH AT BEGINNING OF YEAR	<u>54,417</u>
CASH AT END OF YEAR	<u>\$ 109,573</u>
<u>Supplemental Disclosures</u>	
Cash Paid During the Year for:	
Interest	<u>\$ 59,850</u>

See accompanying notes to financial statements.

TEXAS SERENITY ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016

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 Academy charter was renewed for a period of ten years beginning August 1, 2016 and shall expire on July 31, 2026. 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, 2016

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 unit value in excess of \$5,000 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, 2016

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, 2016, 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:

Plan Description

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.

The plan 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 from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications Heading.

Charter schools are legally separate entities from the State and each other. Assets contributed by one charter or independent school district ("ISD") may be used for the benefit of an employee of another ISD or charter. The risk of participating in multi-employer pension plans is different from single-employer plans. Assets contributed to a multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.

TEXAS SERENITY ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016

D. Pension Plan: (continued)

If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. There is no withdrawal penalty for leaving the TRS system. There is no collective-bargaining agreement. The latest TRS Comprehensive Annual Financial Report available dated August 31, 2016 provided the following information (ABO refers to the accumulated benefit obligation):

<u>Pension Fund</u>	<u>Total Plan Assets 2016</u>	<u>ABO 2016</u>	<u>Percent Funded</u>
TRS	\$ 152,925,647,000	\$ 171,797,150,000	78.00%

Funding Policy

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 year, the period would be increased by such action. State law provides for a member contribution rate of 7.2% for the 2016 fiscal period. The state's contribution rate as a non-employer contributing entity was 6.8% in 2016. The Charter School's employees' contributions to the system for the year ended August 31, 2016 were \$177,406, 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 were contributed at a rate of 6.8% totaling \$44,943 for the year ended August 31, 2016. The Charter School's contributions into this plan do not represent more than 5% of the total contributions to the plan and the charter school was not assessed a surcharge

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, 2016, the remaining balance is \$103,241.

The Academy also has a Real Estate Repayment Note of \$34,220 due from a landlord for un-allowed prepaid rent payments. The note receivable is payable in monthly installments of \$6,000. As of August 31, 2016, the remaining balance is \$26,670.

TEXAS SERENITY ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

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:

Year ending August 31,	Amount
2017	\$ 393,033
2018	129,033
2019	102,492
2020	6,082
	\$ 630,640

Operating lease expense amounted to \$337,342 for the year ended August 31, 2016.

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.	\$ 68,590
Note payable to Daimler Truck Financial. The note is dated December 28, 2015, at a 4.49% interest rate, payable with one installment of \$138,107 on July 28, 2016 and 5 installments of \$12,339.45 paid on December 28 for the next 5 years. The face amount is of \$188,734. The date of maturity is December 28, 2020.	\$ 188,734
Note payable to Jermaine Martin. The note is dated August 15, 2016, with a \$2,500 financing fee per month. Payable with 10 installments of \$12,500 paid on the monthly dates starting in the year 2016 through 2017 of October 26, November 30, December 30, January 26, February 26, March 26, April 26, May 26, June 26 and July 26. The face amount is of \$100,000.	\$ 100,000
Note payable to REM Services, Inc. The note is dated August 18, 2016, with no interest, payable in one installment of \$50,000 on November 26, 2016. The note is secured with all Texas Serenity Academy property. The note was paid in full in November 2016.	\$ 50,000

TEXAS SERENITY ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

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, 2016. 15,450

Total notes payable	422,774
Less: Current portion notes payable	(324,585)
Notes payable net of current portion	\$ 98,189

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

Year ending August 31,	Principal	Interest	Total
2017	\$ 324,585	\$ 38,931	\$ 363,516
2018	34,563	4,579	39,142
2019	32,010	2,872	34,882
2020	11,265	1,074	12,339
2021	20,350	331	20,681
Total	\$ 422,773	\$ 47,787	\$ 470,560

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, 2016 is \$98,033.

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, 2016:

Grant Description	Amount
SSI Grant – 120240177110906	\$ 19,496
Total	\$ 19,496

J. Health Care Coverage:

During the year ended August 31, 2016 employees of the Academy were covered by a health insurance plan. The school contributed \$225 per month per employee, and \$1,521 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, 2016

K. Temporarily Restricted Net Assets:

Temporarily restricted net assets at August 31, 2016, are available for the following periods:

Periods after August 31, 2016	\$ <u>0</u>
Total restricted funds	\$ <u><u>0</u></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:

State Funds	\$ 3,621,400
Federal Funds	1,231,948
Total restrictions released	\$ <u><u>4,853,348</u></u>

L. 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.

M. 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.

N. Prior Year Adjustment:

During the year ended August 31, 2016, an adjustment was made to the Academy net assets in the amount of \$4,976 to correct accounts receivable balance of prior years. The adjustment decrease accounts receivable and decrease net assets by the same amount.

O. Evaluation of Subsequent Events:

The Organization has evaluated subsequent events through January 25, 2017 the date which the financial statements were available to be issued.

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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY 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, 2016, and have issued our report thereon dated January 25, 2017, 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 on pages 14 to 16 for purposes of additional analysis and are 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.



Houston, TX
January 25, 2017

TEXAS SERENITY ACADEMY, INC.
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED AUGUST 31, 2016

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$	\$ 109,573	\$
1520 Building and Improvements		455,942	14,326
1531 Vehicles		500,930	
1549 Furniture and Equipment	135,588	652,656	193,881
Total Property and Equipment	<u>\$ 135,588</u>	<u>\$ 1,719,101</u>	<u>\$ 208,207</u>

See accompanying notes to financial statements.

TEXAS SERENITY ACADEMY, INC.
SCHEDULE OF EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2016

Expenses	
6100 Payroll Costs	\$ 2,763,155
6200 Professional and Contracted Services	1,562,711
6300 Supplies and Materials	487,499
6400 Other Operating Costs	237,301
6500 Debt	59,850
Total Expenses	<u>\$ 5,110,516</u>

See accompanying notes to financial statements.

TEXAS SERENITY ACADEMY, INC.
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance from Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 1,500	\$ 139,607	\$ 147,359	\$ 7,752
5750 Food Service Sales	<u>4,000</u>	<u>1,500</u>	<u>1,774</u>	<u>274</u>
Total Local Support	5,500	141,107	149,133	8,026
State Program Revenues:				
5810 Foundation School Program Act Revenues	3,571,169	3,549,786	3,593,806	44,020
5820 State Program Revenues Distributed by Texas Education Agency	<u>2,000</u>	<u>27,594</u>	<u>27,594</u>	<u>(0)</u>
Total State Program Revenues	3,573,169	3,577,380	3,621,400	44,020
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	305,000	1,334,340	1,220,137	(114,203)
5930 Federal Revenues Distributed Through Gov Entities Other Than State or Federal	<u>305,000</u>	<u>1,334,340</u>	<u>11,811</u>	<u>11,811</u>
Total Federal Program Revenues	305,000	1,334,340	1,231,948	(102,391)
Total Revenues	3,883,669	5,052,827	5,002,481	(50,345)
EXPENSES				
11 Instruction	1,503,314	2,107,192	1,872,235	234,957
12 Instructional Resources and Media Services	10	10		10
13 Curriculum Development and Instructional Staff Development	350	40,598	28,399	12,199
21 Instructional Leadership	70,889	189,635	182,101	7,534
23 School Leadership	302,730	325,982	297,833	28,149
31 Guidance, Counseling, and Evaluation Services	620	28,620	17,700	10,920
33 Health Services	46,984	40,897	34,752	6,145
34 Student (Pupil) Transportation	378,118	514,914	524,655	(9,741)
35 Food Service	331,389	346,910	344,274	2,636
36 Cocurricular/Extracurricular Activities	9,679	339,913	328,639	11,274
41 General Administration	476,632	543,672	553,737	(10,065)
51 Plant Maintenance and Operations	532,472	680,651	778,542	(97,891)
52 Security and Monitoring Services	560	505		505
53 Data Processing Services	16,550	56,035	47,375	8,660
61 Community Services	7,200	56,972	40,766	16,206
71 Debt Services	18,000	25,200	59,507	(34,307)
81 Fund Raising	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>
Total Expenses	<u>3,695,507</u>	<u>5,297,716</u>	<u>5,110,516</u>	<u>187,200</u>
Change in Net Assets	<u>188,162</u>	<u>(244,889)</u>	<u>(108,035)</u>	<u>136,854</u>
Net Assets at Beginning of Year, as Restated	<u>352,102</u>	<u>352,102</u>	<u>117,867</u>	<u></u>
Net Assets, End of Year	<u>\$ 540,264</u>	<u>\$ 107,213</u>	<u>\$ 9,832</u>	<u>\$ 136,854</u>

See accompanying notes to financial statements.

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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, 2016, 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 25, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Academy 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 internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy 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 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 25, 2017

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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 Compliance Supplement* that could have a direct and material effect on each of the Academy major federal programs for the year ended August 31, 2016. The Academy 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Academy 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 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 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, 2016.

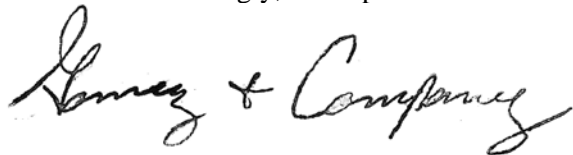
Report on Internal Control Over Compliance

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 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Academy 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Houston, TX
January 25, 2017

TEXAS SERENITY ACADEMY, INC.
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED AUGUST 31, 2016

Summary of Audit Results

1. The auditor's report expresses an unmodified opinion on whether the financial statements were prepared in accordance with GAAP.
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 in accordance with 2 CFR Section 200.516(a).
7. Major programs:

U.S. Department of Education
 Passed through the Texas Education Agency
 21st Century Grant CFDA Number 84.287C
8. The threshold used for distinguishing between Type A and Type B programs was \$750,000.
9. The Academy qualifies as a low-risk auditee.

<u>Current Year Findings</u>	Questioned Cost
No audit findings were noted as per governmental auditing standards and 2 CFR section 200.516(a).	\$ -0-

<u>Summary Schedule of Prior Year Findings</u>	Questioned Cost
No audit findings were noted as per Section .300 (f) of OMB A-133 for the year ended August 31, 2015.	\$ -0-

TEXAS SERENITY ACADEMY, INC.

SCHEDULE OF EXPENDITURE OF FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED AUGUST 31, 2016

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	16610101170801	140,345
ESEA, Title I, Part A Priority and Focus	84.010A	15610112170801000	11,500
ESEA, Title I, Part A Priority and Focus	84.010A	16610112170801000	22,971
ESEA, Title II, Part A	84.367A	16694501170801	11,264
ESEA, Title III, Part A	84.365A	16671001236950	7,696
21ST CCLC Cycle 7 Year 5	84.287C	166950167110039	594,248
Idea B Formula	84.027A	166600011708016000	117,118
Total passed through Texas Education Agency			905,142
Total U.S. Department of Education			905,142
<u>U.S. Department of Agriculture</u>			
Passed - Through Texas Education Agency			
Federal Food Service Reimbursement			
Breakfast	10.553	71401501	12,330
Breakfast	10.553	71401601	71,460
Lunch	10.555	71301501	33,402
Lunch	10.555	71301601	197,803
			314,995
Total U.S. Department of Agriculture			314,995
Total Expenditures of Federal Awards			\$ 1,220,137

TEXAS SERENITY ACADEMY, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2016

NOTE 1- SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying schedule of federal awards (the Schedule) includes the federal grant activity of Texas Serenity Academy, Inc. (the Academy) under programs of the federal government for the year ended August 31, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 of 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 the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Pass-through entity identifying numbers are presented where available.

Indirect Cost Rate

The Academy has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Reconciliation of Federal Revenues and (SEFA):

Total expenditure of federal awards per the SEFA	\$ 1,220,137
SHARS Revenue	<u>11,811</u>
Total federal revenues per the Statement of Activities	<u>\$ 1,231,948</u>