

TEXAS SERENITY ACADEMY, INC.
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED AUGUST 31, 2018

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

CERTIFICATE OF BOARD
August 31, 2018

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, 2018, at a meeting of the governing body of said charter holder on the 28th day of January, 2019.

Kenneth A. White
Signature of Board Secretary

Wesley 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, 2018, 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, 2018, 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* 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 28, 2019, on our consideration of Texas Serenity 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 solely 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 the effectiveness of the Texas Serenity Academy's 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 Texas Serenity Academy's internal control over financial reporting and compliance.



Houston, TX
January 28, 2019

TEXAS SERENITY ACADEMY, INC.
STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2018

ASSETS:	
Current Assets:	
Cash	\$ 156,007
Restricted Cash	499,989
Grants Receivable	646,002
Other Receivables	137,667
Prepaid Expenses	23,902
Total Current Assets:	<u>1,463,567</u>
Property, Plant & Equipment:	
Building and Improvements	222,300
Furniture and Equipment	1,017,038
Vehicles	425,660
	<u>1,664,998</u>
Less: Accumulated Depreciation	<u>(1,173,577)</u>
Net Property, Plant & Equipment:	<u>491,421</u>
Total Assets:	<u>\$ 1,954,988</u>
LIABILITIES & NET ASSETS:	
Current Liabilities:	
Accounts Payable	\$ 218,124
Accrued Liabilities	407,423
Accrued Wages	157,485
Deferred Revenue	30,565
Other Liabilities	500,000
Line of Credit	88,454
Current Portion of Notes Payable	270,434
Total Current Liabilities	<u>1,672,485</u>
Long-term Liabilities:	
Notes Payable Net of Current Portion	<u>269,071</u>
Total Liabilities	<u>1,941,556</u>
Net Assets:	
Temporarily Restricted	<u>13,432</u>
Total Net Assets	<u>13,432</u>
Total Liabilities and Net Assets	<u>\$ 1,954,988</u>

See accompanying notes to financial statements.

TEXAS SERENITY ACADEMY, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2018

	Unrestricted	Temporarily Restricted	Total
REVENUES			
Local Support:			
5740 Other Revenues from Local Sources	\$ 549,304	\$	\$ 549,304
Total Local Support	549,304		549,304
State Program Revenues			
5810 Foundation School Program Act Revenues		5,265,477	5,265,477
5820 State Program Revenues Distributed by			
Texas Education Agency	18,658		18,658
Total State Program Revenues		5,284,135	5,284,135
Federal Program Revenues:			
5920 Federal Revenues Distributed by			
Texas Education Agency		1,032,128	1,032,128
5930 Federal Revenues Distributed Through			
Government Entities Other Than State or Federa	267,930		267,930
Total Federal Program Revenues		1,300,057	1,300,057
Net assets released from restrictions:			
Restrictions satisfied by payments	5,802,003	(5,802,003)	
Total Revenues	6,351,307	782,189	7,133,496
EXPENSES			
11 Instruction	2,517,650		2,517,650
13 Curriculum Development and Instructional			
Staff Development	44,612		44,612
21 Instructional Leadership	128,816		128,816
23 School Leadership	457,663		457,663
31 Guidance, Counseling, and Evaluation			
Services	12,000		12,000
33 Health Services	50,245		50,245
34 Student (Pupil) Transportation	778,538		778,538
35 Food Service	392,811		392,811
36 Cocurricular/Extracurricular Activities	11,128		11,128
41 General Administration	623,703		623,703
51 Plant Maintenance and Operations	815,494		815,494
53 Data Processing Services	6,721		6,721
71 Debt Services	511,929		511,929
Total Expenses	6,351,307		6,351,307
Change in Net Assets		782,189	782,189
Net Assets at Beginning of Year	(768,757)		(768,757)
Net Assets, End of Year	\$ (768,757)	\$ 782,189	\$ 13,432

See accompanying notes to financial statements.

TEXAS SERENITY ACADEMY, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2018

Cash Flows From Operating Activities	
Change in net assets	\$ 782,189
Adjustments to reconcile change in net assets to net	
Cash provided (used) by operating activities:	
Depreciation	31,377
(Increase) decrease in Grants Receivable	(591,454)
(Increase) decrease in Other Receivables	30,979
(Increase) decrease in Prepaid Expenses	12,349
Increase (decrease) in Accounts Payable	36,931
Increase (decrease) in Accrued Liabilities	323,563
Increase (decrease) in Accrued Wages	(26,496)
Increase (decrease) in Interest Payable	(31,755)
Increase (decrease) in Other Liabilities	500,000
Increase (decrease) in Deferred Revenue	<u>5,502</u>
Total Adjustments	<u>290,996</u>
Net Cash Provided (Used) by Operating Activities	<u>1,073,185</u>
Cash Flows From Investing Activities	
Purchase of Fixed Assets	<u>(263,700)</u>
Net Cash Provided (Used) by Investing Activities	<u>(263,700)</u>
Cash Flows From Financing Activities	
Proceeds from Line of Credit	126,194
Proceeds from Long-Term Debt	1,279,184
Repayment of Line Of Credit	(138,128)
Repayment of Long-Term Debt	<u>(1,529,641)</u>
Net Cash Provided (Used) by Financing Activities	<u>(262,391)</u>
NET INCREASE (DECREASE) IN CASH	<u>547,094</u>
CASH AT BEGINNING OF YEAR	<u>108,902</u>
CASH AT END OF YEAR	<u>\$ 655,996</u>
<u>Supplemental Disclosures</u>	
Cash Paid During the Year for:	
Interest	<u>\$ 512,137</u>

See accompanying notes to financial statements.

TEXAS SERENITY ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2018

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, 2018

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, 2017

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, 2018, 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, 2018

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, 2018 provided the following information (ABO refers to the accumulated benefit obligation):

<u>Pension Fund</u>	<u>Total Plan Assets 2018</u>	<u>ABO 2018</u>	<u>Percent Funded</u>
TRS	\$ 176,942,454,000	\$ 209,611,329,000	73.74%

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 7.7% for the 2018 fiscal period. The state's contribution rate as a non-employer contributing entity was 6.8% in 2018. The Charter School's employees' contributions to the system for the year ended August 31, 2018 were \$260,830, 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 \$34,610 for the year ended August 31, 2018. 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. Other Receivables:

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, 2018, the remaining balance is \$79,241.

TEXAS SERENITY ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018

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
2019	\$ 362,225
2020	103,364
2021	129,704
2022	132,338
2023	114,624
Total	\$ 842,255

Operating lease expense amounted to \$400,885 for the year ended August 31, 2018.

G. Notes Payable:

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

Note payable to Spirit of Texas secured by 10 vehicles. The note is dated May 5, 2017, at a 6.5% interest rate, payable in 120 installments of \$4,209.24 paid on the 22nd of every month for the next 10 years and a face amount of \$369,148. The date of maturity is May 22, 2027. \$ 298,515

Note payable to New Logic secured by school assets. The note is dated February 28, 2018, payable in 352 weekday installments of \$812.50, with a \$86,000 financing fee throughout the year. The face amount is of \$200,000. The maturity date of the loan is July 7, 2019. 126,705

Note payable to Ameriquest secured by all deposit accounts, accounts receivable, other receivables and equipment. The note is dated on June 28, 2018 with an interest fee of \$72,000 over the life of the loan. The face amount on the note is \$160,000. The maturity date is on February 6, 2019. 114,285

Total notes payable	539,505
Less: Current portion notes payable	(270,434)
Notes payable net of current portion	\$ 269,071

TEXAS SERENITY ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018

G. Notes Payable: (Continued)

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

<u>Year ending August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 270,434	\$ 126,946	\$ 397,380
2020	31,630	18,881	50,511
2021	34,088	16,423	50,511
2022	36,680	13,831	50,511
2023	39,469	11,042	50,511
Thereafter	127,204	14,246	141,450
Total	<u>\$ 539,505</u>	<u>\$ 201,369</u>	<u>\$ 740,874</u>

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, 2018 is \$88,454.

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, 2018:

<u>Grant Description</u>	<u>Amount</u>
SSI Grant	\$ 19,496
IDEA B	5,567
Disaster Grant- Public Assistance	5,502
Total	<u>\$ 30,565</u>

J. Health Care Coverage:

During the year ended August 31, 2018 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, 2018

K. Temporarily Restricted Net Assets:

Temporarily restricted net assets at August 31, 2018, are available for the following periods:

Periods after August 31, 2018	\$ 13,432
Total restricted funds	<u>\$ 13,432</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	\$ 4,501,946
Federal Funds	1,300,057
Total restrictions released	<u>\$ 5,802,003</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. Joint Ventures

Texas Serenity Academy entered into a joint venture agreement with Youth Empowerment Services ,a nonprofit entity, to open a money market and donation bank account on July 31, 2018. The joint venture was formed for the purpose of securing the financial sustainability of Texas Serenity Academy and allow for expanding the professional consulting services of Youth Empowerment Services. Neither party will be able to withdraw any funds from the inception of the agreement until October 31, 2018. Youth Empowerment Services agreed to deposit \$500,000 into a bank account in the name of Texas Serenity Academy, Inc. When the account is closed, the \$500,000 initially deposited will be returned and any interest accrued up to the date of October 31, 2018 will be administered in the amounts of 10% to Texas Serenity Academy and 90% to Youth Empowerment Services.

O. 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.

P. Evaluation of Subsequent Events:

The Organization has evaluated subsequent events through January 28, 2019 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, 2018, and have issued our report thereon dated January 28, 2019, 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 15 to 17 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 28, 2019

TEXAS SERENITY ACADEMY, INC.
SCHEDULE OF EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2018

Expenses	
6100 Payroll Costs	\$ 3,766,023
6200 Professional and Contracted Services	1,238,696
6300 Supplies and Materials	405,413
6400 Other Operating Costs	429,038
6500 Debt	512,137
Total Expenses	<u>\$ 6,351,307</u>

See accompanying notes to financial statements.

TEXAS SERENITY ACADEMY, INC.
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED AUGUST 31, 2018

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$	\$ 655,996	\$
1520 Building and Improvements		27,432	194,868
1531 Vehicles		425,660	
1549 Furniture and Equipment	135,588	687,569	193,881
 Total Property and Equipment	 <u>\$ 135,588</u>	 <u>\$ 1,796,657</u>	 <u>\$ 388,749</u>

See accompanying notes to financial statements.

TEXAS SERENITY ACADEMY, INC.
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2018

	<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	\$ 100	\$ 200	\$ 549,304	\$ 549,104
5750 Food Service Sales	<u>1,000</u>	<u>400</u>	<u>0</u>	<u>(400)</u>
Total Local Support	1,100	600	549,304	548,704
State Program Revenues:				
5810 Foundation School Program Act Revenues	5,206,441	5,264,653	5,265,477	824
5820 State Program Revenues Distributed by Texas Education Agency	<u>2,000</u>	<u>2,000</u>	<u>18,658</u>	<u>16,658</u>
Total State Program Revenues	5,208,441	5,266,653	5,284,135	17,482
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	388,800	1,668,470	1,032,128	(636,342)
5930 Federal Revenues Distributed Through Gov Entities Other Than State or Federal	<u>388,800</u>	<u>1,668,470</u>	<u>267,930</u>	<u>267,930</u>
Total Federal Program Revenues	388,800	1,668,470	1,300,057	(368,413)
Total Revenues	5,598,341	6,935,723	7,133,496	197,773
EXPENSES				
11 Instruction	2,035,302	2,929,587	2,517,650	411,937
12 Instructional Resources and Media Services	20	20		20
13 Curriculum Development and Instructional Staff Development	350	63,850	44,612	19,238
21 Instructional Leadership	125,472	125,472	128,816	(3,344)
23 School Leadership	503,873	547,746	457,663	90,083
31 Guidance, Counseling, and Evaluation Services	1,720	16,720	12,000	4,720
33 Health Services	53,605	53,764	50,245	3,519
34 Student (Pupil) Transportation	645,140	799,731	778,538	21,193
35 Food Service	519,157	400,083	392,811	7,272
36 Cocurricular/Extracurricular Activities	11,050	17,065	11,128	5,937
41 General Administration	545,832	635,215	623,703	11,512
51 Plant Maintenance and Operations	631,854	932,176	815,494	116,683
52 Security and Monitoring Services	1,505	1,505		1,505
53 Data Processing Services	18,050	18,050	6,721	11,329
61 Community Services	7,200	7,200		7,200
71 Debt Services	43,000	424,200	511,929	(87,729)
81 Fund Raising	<u>10</u>	<u>10</u>		<u>10</u>
Total Expenses	<u>5,143,140</u>	<u>6,972,394</u>	<u>6,351,307</u>	<u>621,087</u>
Change in Net Assets	<u>455,201</u>	<u>(36,671)</u>	<u>782,189</u>	<u>818,860</u>
Net Assets at Beginning of Year	<u>(768,757)</u>	<u>(768,757)</u>	<u>(768,757)</u>	
Net Assets, End of Year	<u>\$ (313,556)</u>	<u>\$ (805,428)</u>	<u>\$ 13,432</u>	<u>\$ 818,860</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, 2018, 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 28, 2019.

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 28, 2019

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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's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Texas Serenity Academy's major federal programs for the year ended August 31, 2018. Texas Serenity 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 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 Texas Serenity 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 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 Texas Serenity 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 Texas Serenity Academy's compliance.

Opinion on Each Major Federal Program

In our opinion, Texas Serenity 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, 2018.

Report on Internal Control over Compliance

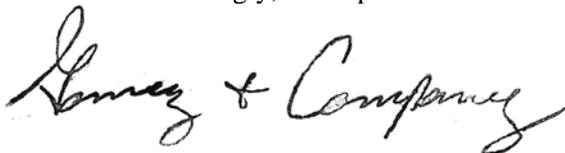
Management of Texas Serenity Academy is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above.

In planning and performing our audit of compliance, we considered Texas Serenity 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 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 Texas Serenity Academy's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a 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, Texas
January 28, 2019

TEXAS SERENITY ACADEMY, INC.
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED AUGUST 31, 2018

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 program.
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 Agriculture	
Passed – Through Texas Education Agency	
National School Lunch Program*	CFDA Number 10.555
School Breakfast Program*	CFDA Number 10.553
U.S. Department of Education	
Passed – Through Texas Education Agency	
Emergency Impact Aid to LEAs	CFDA Number 84.938C
8. The threshold used for distinguishing between Type A and Type B programs was \$750,000.
9. Texas Serenity does not qualify 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-

*Denotes cluster

TEXAS SERENITY ACADEMY, INC.
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2018

No audit findings were noted as per governmental auditing standards for the year end August 31, 2017.

TEXAS SERENITY ACADEMY, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2018

Federal Grantor/ Pass - Through Grantor/ Program Title	Federal CFDA Number	Pass - Through Entity Identifying Number	Federal Expenditures
<u>U.S. Department of Education</u>			
Passed - Through Texas Education Agency:			
Title I, Part A, School Improvement	84.010A	17610101170801	15,638
Title I, Part A, School Improvement	84.010A	18610101170801	174,695
Title I, Part A, Priority and Focus	84.010A	17610112170801000	4,550
Idea - B Formula	84.027A	176600011708016000	2,690
Idea - B Formula	84.027A	186600011708016000	96,387
Title II, Part A, Teacher/Principal Training & Recruiting	84.367A	18694501170801	3,640
Emergency Impact Aid To LEAs	84.938C	51271901	410,471
Title III, Part A-ELA	84.365A	18671001170801	6,094
Total U.S. Department of Education			714,165
<u>U.S. Department of Agriculture</u>			
Passed - Through Texas Education Agency			
Federal Food Service Reimbursement			
School Breakfast	10.553	71401701	7,954
School Breakfast	10.553	71401801	94,386
National School Lunch	10.555	71301701	15,699
National School Lunch	10.555	71301801	186,726
Passed - Through Texas Department of Agriculture			
USDA Commodity Food Distribution	10.555		13,197
Total U.S. Department of Agriculture			317,962
<u>U.S. Department of Homeland Security</u>			
Passed - Through Texas Department of Public Safety			
Disaster Grant- Public Assistance	97.036	4332DRTXP0000001	261,041
Total U.S. Department of Homeland Security			261,041
Total Expenditures of Federal Awards			\$ 1,293,168

TEXAS SERENITY ACADEMY, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2018

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 under programs of the federal government for the year ended August 31, 2018. 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 Texas Serenity Academy, it is not intended to and does not present the financial position, changes in net assets or cash flows of Texas Serenity 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

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

Reconciliation of Federal Revenues and Schedule of Expenditures of Federal Awards (SEFA):

Total expenditure of federal awards per the SEFA	\$	1,293,168
School Health and Related Services (SHARS)		6,889
Total federal revenues per the Audit Report	\$	<u>1,300,057</u>