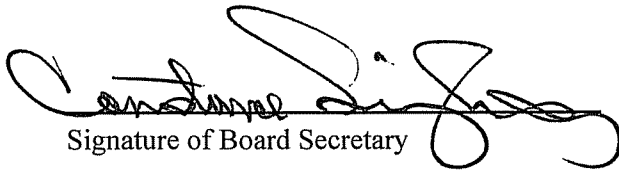
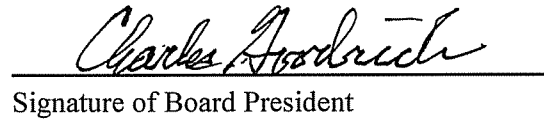


Foundation for Recovering Youth (Charter Holder)  
DBA Houston Heights High School  
(Federal Employer Identification Number: 76-0584154)  
Certificate of Board

We, the undersigned, certify that the attached Financial and Compliance Report of the Foundation for Recovering Youth DBA Houston Heights High School was reviewed and (check one)   X   approved        disapproved for the year ended August 31, 2010, at a meeting of the governing body of the charter holder on the 19th day of January 2011.

  
Signature of Board Secretary

  
Signature of Board President

**NOTE:** If the governing body of the charter holder does not approve the independent auditors' report, it must forward a written statement discussing the reason(s) for not approving the report.

Foundation for Recovering Youth (Charter Holder)  
Houston Heights High School (School)  
Independent Auditor's Reports and  
Financial Statements  
August 31, 2010 and 2009

Houston Heights High School  
Financial Statements and Supplemental Information

August 31, 2010 and 2009

**Contents**

Independent Auditors Report.....	1
<b>Financial Statements:</b>	
Statements of Financial Position.....	2
Statements of Activities .....	3
Statements of Cash Flows.....	4
Notes to the Financial Statements.....	5
<b>Special-Purpose Statements:</b>	
Schedule of Expenses .....	9
Schedule of Capital Assets.....	10
Budgetary Comparison Schedule.....	11
<b>Supplemental Reporting:</b>	
Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	12
Schedule of Findings and Questioned Costs.....	13
Schedule of Prior Audit Findings .....	14



## Independent Auditor's Report

To the Board of Trustees of  
Houston Heights High School

We have audited the accompanying statement of financial position of Foundation for Recovering Youth (charter holder) and Houston Heights High School (the charter school) as of August 31, 2010 and 2009, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the charter school's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits for 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Foundation for Recovering Youth and Houston Heights High School as of August 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our reports dated January 4, 2011, on our consideration of the charter school's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying special-purpose statements are presented for additional analysis as required by the Texas Education Agency, and is not a required part of the financial statements. This information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is presented fairly, in all material respects, in relation to the financial statements taken as a whole.

*Ralph and Ralph, P.C.*

Houston, Texas  
January 4, 2011

Houston Heights High School

Statements of Financial Position

	<b>August 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 790,888	\$ 1,130,059
Accounts receivable	44,149	15,996
Investments	250,000	250,000
Prepaid expenses and deposits	11,735	10,223
Total current assets	<u>1,096,772</u>	<u>1,406,278</u>
Property and equipment, net	<u>289,200</u>	<u>56,877</u>
Total assets	<u>\$ 1,385,972</u>	<u>\$ 1,463,155</u>
<b>Liabilities and net assets</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 8,829	\$ 8,798
Deferred revenue	<u>-</u>	<u>-</u>
Total current liabilities	8,829	8,798
<b>Net assets</b>		
Unrestricted net assets	201,028	199,571
Temporarily restricted	1,176,115	1,254,786
Total net assets	<u>1,377,143</u>	<u>1,454,357</u>
Total liabilities and net assets	<u>\$ 1,385,972</u>	<u>\$ 1,463,155</u>

*The notes to the financial statements are an integral part of the financial statements.*

# Houston Heights High School

## Statements of Activities

For the Years Ended August 31, 2010 and 2009

	Unrestricted	Temporarily Restricted	Totals	
			2010	2009
<b>Revenues</b>				
Local support:				
5740 Other revenues from local sources	\$ 50,353	\$ -	\$ 50,353	\$ 40,999
5750 Revenue from enterprising sources	4,266	-	4,266	4,503
State program revenues				
5810 Foundation School Program Act	-	1,835,615	1,835,615	1,775,771
5820 State program revenues distributed by Texas Education Agency	-	19,160	19,160	110,963
Total state program revenues	-	1,854,775	1,854,775	1,886,734
Federal program revenues:				
5920 Federal revenues distributed by the the Texas Education Agency	-	241,434	241,434	207,920
Net assets released from restrictions:				
Restrictions satisfied by payments	2,174,880	(2,174,880)	-	-
Total revenues and other support	2,229,499	(78,671)	2,150,828	2,140,156
<b>Expenses and other losses</b>				
11 Instruction	1,279,148	-	1,279,148	1,160,217
12 Instructional Resources and Media Services	-	-	-	-
13 Curriculum Development and Instructional Staff Development	20,533	-	20,533	3,392
21 Instructional Leadership	104,782	-	104,782	109,665
23 School Leadership	59,175	-	59,175	57,894
31 Guidance, Counseling and Evaluation Service	26,566	-	26,566	38,976
33 Health Services	754	-	754	-
35 Food Services	60,347	-	60,347	86,927
36 Cocurricular/Extracurricular Activities	30,247	-	30,247	37,712
41 General Administration	218,556	-	218,556	187,617
51 Plant Maintenance and Operations	427,934	-	427,934	425,415
52 Security and Monitoring Services	-	-	-	-
53 Data Processing Services	-	-	-	-
	2,228,042	-	2,228,042	2,107,815
Change in net assets	1,457	(78,671)	(77,214)	32,341
Net assets, beginning of year	199,571	1,254,786	1,454,357	1,422,016
Net assets, ending of year	\$ 201,028	\$ 1,176,115	\$ 1,377,143	\$ 1,454,357

*The notes to the financial statements are an integral part of the financial statements.*

# Houston Heights High School

## Statements of Cash Flows

For the Years Ended August 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>Cash flows from operating activities</b>		
Foundation School Program payments	\$ 1,851,611	\$ 1,694,363
Grant payments	266,798	331,139
Miscellaneous sources	4,266	45,502
Payments to vendors for goods and services	(802,734)	(831,680)
Payments to charter school personnel for services	<u>(1,405,241)</u>	<u>(1,264,810)</u>
Net cash provided by operating activities	<u>(85,300)</u>	<u>(25,486)</u>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(253,871)	-
Purchase of investments	<u>-</u>	<u>(250,000)</u>
Net cash used by investing activities	<u>(253,871)</u>	<u>(250,000)</u>
Net increase in cash and cash equivalents	(339,171)	(275,486)
Cash and cash equivalents, beginning of year	<u>1,130,059</u>	<u>1,405,545</u>
Cash and cash equivalents, end of year	<u>\$ 790,888</u>	<u>\$ 1,130,059</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ (77,214)	\$ 32,341
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	21,548	7,041
(Increase) decrease in assets:		
Accounts receivable	(28,153)	(3,742)
Deposits and prepaid expenses	(1,512)	-
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	31	4,286
Deferred revenue	<u>-</u>	<u>(65,412)</u>
Net cash provided by operating activities	<u>\$ (85,300)</u>	<u>\$ (25,486)</u>

*The notes to the financial statements are an integral part of the financial statements.*

## Notes to Financial Statements Houston Heights High School

### **Note 1 – Summary of Significant Accounting Policies**

The general-purpose financial statements of Houston Heights High School (formerly Heights Charter School) were prepared in conformity with accounting principles generally accepted in the United States. The Financial Accounting Standards Board is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles. **The charter holder operates one charter school and does not engage in any other non-charter activity.**

#### *Organization*

Foundation for Recovering Youth, Inc., (charter holder), dba Houston Heights High School (“HHHS”), is a non-profit organization incorporated under the laws of the State of Texas and exempt from federal taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. The corporation is governed by a board of directors comprised of four members. The Board of Directors is selected pursuant to the by-laws of the corporation and has the authority to make decisions, appoint the chief executive officer of the corporation, and significantly influence operations. The Board of Directors has the primary accountability for the affairs of the corporation.

Since the corporation received funding from local, state and federal government sources, it must comply with the requirements of the entities providing those funds.

#### *Corporate Operations*

In 1998, the State Board of Education of the State of Texas granted the corporation an open enrollment charter pursuant to Chapter 12 of the Texas Education Code. Pursuant to the program described in the charter application approved by the State Board of Education and the terms of the applicable Contract for Charter, HHHS was opened in 1999. The charter school was organized to provide educational services for grades 8-12 and its programs, services and functions are governed by the corporation’s board of directors.

#### *Basis of Presentation*

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. Accordingly, management made certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Therefore, actual results could differ from those estimates.

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



Notes to Financial Statements (continued)  
Houston Heights High School

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

**Temporarily restricted**- net assets subject to donor-imposed stipulations that may or will be met, either by actions of the corporation, the charter school and/or the passage of time. When a restriction expires, 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 required to be maintained in perpetuity with only the income to be used for the charter school's activities due to donor-imposed restrictions.

The charter school had no permanently restricted net assets at August 31, 2010 and 2009.

*Cash and Cash Equivalents*

Cash and cash equivalents represent cash in banks and highly liquid investments with maturity dates of three months or less. As of August 31, 2010, the school maintained \$454,667 in excess of the federally insured limits at one financial institution. The school maintains a depository contract with the financial institution that insures this amount, as required by TEA.

*Capital Assets*

Capital assets, which include leasehold improvements, equipment and furniture, are reported in the financial statements at cost. Acquisitions of property and equipment in excess of \$5,000 and all expenditures for repairs, maintenance, and betterments that materially prolong the useful lives of assets are capitalized. Depreciation is provided by use of the straight-line method over the estimated useful lives of between 5 and 10 years for furniture and equipment and 15 years for leasehold improvements. Donations of property and equipment are recorded at fair value at the date of the gift.

**Note 2 – Investments**

Investments at August 31, 2010 and 2009, consisted of a \$250,000 certificate of deposit, maturing in August, 2011. Interest on these CD is earned at an annual percentage rate of 2.96%. This investment is stated at cost, which equals fair market value.

Notes to Financial Statements (continued)  
Houston Heights High School

**Note 3 – Capital Assets**

Capital assets consist of the following:

	<b>August 31,</b>	
	<b>2010</b>	<b>2009</b>
Improvements	\$ 414,135	\$ 165,406
Furniture and equipment	237,271	232,129
	651,406	397,535
Accumulated depreciation	(362,206)	(340,658)
	\$ 289,200	\$ 56,877

Depreciation expense for the years ended August 31, 2010 and 2009 was \$21,748 and \$7,041, respectively.

Capital assets acquired with public funds received by the corporation for the operation of Houston Heights High School constitute public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified on the Schedule of Capital Assets.

**Note 4 – Pension Plan Obligations**

*Plan Description*

The charter school contributes to the Teacher Retirement System of Texas (the System), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception; all risks and costs are not shared by the charter school, but are the liability of the State of Texas. The system provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates under the authority of provisions contained primarily in Texas Government code, Title 8, Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas, which is subject to amendment by the Texas Legislature. The System's annual financial report and other required disclosure information are available by writing the Teacher Retirement System of Texas, 1000 Red River, Austin, Texas 78701-2698 or by calling (800) 877-0123.

*Funding Policy*

Under provisions in State law, plan members are required to contribute 6.4% of their annual covered salary and the State of Texas contributes an amount equal to 6% of the charter school's covered payroll. The charter school's employees' contributions to the System for the years ended August 31, 2010 and 2009 were \$80,774 and \$79,958, respectively, equal to the required contributions for the year.

Notes to Financial Statements (continued)  
Houston Heights High School

**Note 5 – Health Care Coverage**

During the years ended August 31, 2010 and 2009, employees of the charter school were covered by a Health Insurance Plan (the Plan). The charter school contributed \$246 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to contributions or premiums for dependents. All premiums were paid to licensed insurers.

**Note 6 – Lease Obligation and Related Party Transactions**

The HHHS has entered into an operating lease for facilities. HHHS incurred \$288,049 and \$284,281 in facilities lease expenses for the years ended August 31, 2010 and 2009, respectively. The current lease expires in November, 2018. The school leases office equipment under an operating lease. Future minimum payments under these agreements are as follows:

2011	\$	251,048
2012		251,048
2013		251,048
2014		249,016
2015		248,000
2016		248,000
2017		248,000
2018		41,333

The facility lease agreement is with an entity, which is wholly owned by Mr. Richard Mik, the superintendent and CEO of HHHS. The arrangement has been disclosed to the TEA, and the rental rates are less than the prevailing market rate.

**Note 7 – 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 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 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.

**Note 8 – Temporarily Restricted Net Assets**

Temporarily restricted net assets for the years ending August 31, 2010 and 2009 consisted of the following:

	<b>2010</b>	<b>2009</b>
FSP revenues (420)	\$ 1,176,115	\$ 1,228,138
Technology Allotment (411)	-	11,159
ESEA Title 1 Part A-Improving Basic Programs (211)	-	12,157
Other federal programs	-	3,332
	\$ 1,176,115	\$ 1,254,786

## Special-Purpose Statements

# Houston Heights High School

## Schedule of Expenses

For the Years Ended August 31, 2010 and 2009

	Totals	
	2010	2009
Expenses		
6100 Payroll Costs	\$ 1,501,298	\$ 1,416,255
6200 Professional and Contracted Services	448,572	474,127
6300 Supplies and Materials	185,070	146,096
6400 Other Operating Costs	93,102	71,337
6500 Debt	-	-
Total Expenses	<u>\$ 2,228,042</u>	<u>\$ 2,107,815</u>

# Houston Heights High School

## Schedule of Capital Assets

For the Year Ended August 31, 2010

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 201,028	\$ 589,860	\$ -
1910 Investments	-	250,000	-
1520 Improvements	52,804	361,331	-
1539 Furniture and Equipment	39,650	156,461	41,160
	<u>\$ 293,482</u>	<u>\$ 1,357,652</u>	<u>\$ 41,160</u>

# Houston Heights High School

## Budgetary Comparison Schedule

For the Year Ended August 31, 2010

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
Revenues				
Local support				
5740 Other Revenues from local sources	\$ -	\$ 44,149	\$ 50,353	\$ 6,204
5750 Revenue from enterprising sources	-	-	4,252	4,252
State program revenues				
5810 Foundation School Program Act	1,845,000	1,846,657	1,835,615	(11,042)
5820 State Program revenues distributed by Texas Education Agency	-	13,433	19,160	5,727
Total state program revenues	<u>1,845,000</u>	<u>1,860,090</u>	<u>1,854,775</u>	<u>(5,315)</u>
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	-	241,434	241,434	-
Total federal revenues	-	241,434	241,434	-
Total revenues	<u>1,845,000</u>	<u>2,145,673</u>	<u>2,150,814</u>	<u>5,141</u>
Expenses				
11 Instruction	828,500	1,282,014	1,279,148	2,866
12 Instructional Resource and Media	2,600	-	-	-
13 Curriculum Development and Instructional Staff Development	10,000	21,050	20,533	517
21 Instructional Leadership	153,000	105,000	104,782	218
23 School Leadership	64,800	60,300	59,175	1,125
31 Guidance, Counseling and Evaluation Services	37,800	27,000	26,566	434
32 Social Work Services	-	-	-	-
33 Health Services	3,100	1,000	754	246
34 Student (Pupil) Travel	-	-	-	-
35 Food Service	36,000	60,795	60,347	448
36 Cocurricular/Extracurricular Activities	19,980	32,744	30,247	2,497
41 General Administration	203,400	220,400	218,556	1,844
51 Plant Maintenance and Operations	484,100	447,600	427,934	19,666
52 Security and Monitoring Services	-	-	-	-
Total expenses	<u>1,843,280</u>	<u>2,257,903</u>	<u>2,228,042</u>	<u>29,861</u>
Change in net assets	1,720	(112,230)	(77,228)	35,002
Net assets, beginning of year	<u>199,571</u>	<u>1,254,786</u>	<u>1,454,357</u>	
Net assets, end of year	<u>\$ 201,291</u>	<u>\$ 1,142,556</u>	<u>\$ 1,377,129</u>	<u>\$ 35,002</u>

## Supplemental Reporting





**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  
Houston Heights High School

We have audited the financial statements of Houston Heights High School (the School) (a nonprofit organization), as of and for the year ended August 31, 2010, and have issued our reports thereon dated January 4, 2011. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures 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 School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

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

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School's financial statements are free of 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*.

This report is intended solely for the information and use of management, Board of Directors, and the Texas Education Agency and is not intended to be and should not be used by anyone other than these specified parties.

*Ralph and Ralph, P.C.*

Houston, Texas  
January 4, 2011

Houston Heights High School

Schedule of Findings and Questioned Costs

For the Year Ended August 31, 2010

I. Summary of Auditor's Results

*Financial Statements*

Type of auditor's report issued

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

Yes  No

Significant deficiency(ies) identified that are not considered to be material weaknesses?

Yes  None reported

Noncompliance material to financial statements noted?

Yes  No

II. Financial Statement Findings

None identified.

III. Findings and questioned costs for state and federal awards

None identified

Houston Heights High School  
Schedule of Prior Audit Findings  
For the Year Ended August 31, 2009

None identified