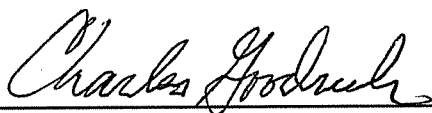
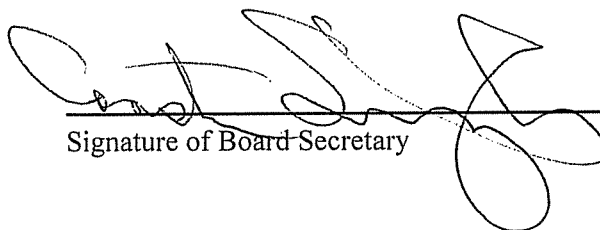


Foundation for Recovering Youth (Charter Holder)
DBA Houston Heights High School
(Federal Employer Identification Number: 76-0584154)
Certificate of Board

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, 2012, at a meeting of the governing body of the charter holder on the 22th day of January 2013.



Signature of Board President



Signature of Board Secretary

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, 2012 and 2011

Houston Heights High School
Financial Statements and Supplemental Information

August 31, 2012 and 2011

Contents

Independent Auditors Report.....	1
Financial Statements:	
Statements of Financial Position.....	2
Statements of Activities	3
Statements of Cash Flows.....	4
Notes to the Financial Statements.....	5
Special-Purpose Statements:	
Schedule of Expenses	9
Schedule of Capital Assets.....	10
Budgetary Comparison Schedule.....	11
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 <i>Government Auditing Standards</i>	12
Schedule of Findings and Questioned Costs.....	14
Schedule of Prior Audit Findings	15



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, 2012 and 2011, 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, 2012 and 2011, 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 15, 2013, 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 15, 2013

Houston Heights High School

Statements of Financial Position

	August 31,	
	2012	2011
Assets		
Current assets		
Cash and cash equivalents	\$ 833,604	\$ 802,509
Accounts receivable	-	-
Investments	250,000	250,000
Prepaid expenses and deposits	10,631	10,000
Total current assets	<u>1,094,235</u>	<u>1,062,509</u>
Property and equipment, net	<u>319,617</u>	<u>268,926</u>
Total assets	<u><u>\$ 1,413,852</u></u>	<u><u>\$ 1,331,435</u></u>
Liabilities and net assets		
Current liabilities		
Accounts payable and accrued liabilities	<u>\$ 2,284</u>	<u>\$ 8,605</u>
Total current liabilities	2,284	8,605
Net assets		
Unrestricted net assets	210,402	210,402
Temporarily restricted	1,201,166	1,112,428
Total net assets	<u>1,411,568</u>	<u>1,322,830</u>
Total liabilities and net assets	<u><u>\$ 1,413,852</u></u>	<u><u>\$ 1,331,435</u></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, 2012 and 2011

	Unrestricted	Temporarily Restricted	Totals	
			2012	2011
Revenues				
Local support:				
5740 Other revenues from local sources	\$ 6,852	\$ -	\$ 6,852	\$ 9,736
5750 Revenue from enterprising sources	1,256	-	1,256	1,902
State program revenues				
5810 Foundation School Program Act	-	1,769,853	1,769,853	1,783,194
5820 State program revenues distributed by Texas Education Agency	-	2,334	2,334	6,064
Total state program revenues	-	1,772,187	1,772,187	1,789,258
Federal program revenues:				
5920 Federal revenues distributed by the the Texas Education Agency	-	222,386	222,386	270,033
Net assets released from restrictions:				
Restrictions satisfied by payments	1,905,835	(1,905,835)	-	-
Total revenues and other support	1,913,943	88,738	2,002,681	2,070,929
Expenses and other losses				
11 Instruction	955,186	-	955,186	1,153,904
12 Instructional Resources and Media Services	-	-	-	-
13 Curriculum Development and Instructional Staff Development	4,719	-	4,719	13,196
21 Instructional Leadership	42,060	-	42,060	64,855
23 School Leadership	114,151	-	114,151	152,324
31 Guidance, Counseling and Evaluation Service	62,623	-	62,623	32,806
33 Health Services	459	-	459	595
35 Food Services	70,708	-	70,708	65,143
36 Cocurricular/Extracurricular Activities	7,380	-	7,380	9,453
41 General Administration	175,704	-	175,704	171,028
51 Plant Maintenance and Operations	480,953	-	480,953	461,938
52 Security and Monitoring Services	-	-	-	-
53 Data Processing Services	-	-	-	-
	1,913,943	-	1,913,943	2,125,242
Change in net assets	-	88,738	88,738	(54,313)
Net assets, beginning of year	210,402	1,112,428	1,322,830	1,377,143
Net assets, ending of year	\$ 210,402	\$ 1,201,166	\$ 1,411,568	\$ 1,322,830

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, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Foundation School Program payments	\$ 1,769,853	\$ 1,783,194
Grant payments	224,720	320,246
Miscellaneous sources	8,108	11,638
Payments to vendors for goods and services	(832,351)	(832,798)
Payments to charter school personnel for services	(1,048,739)	(1,270,659)
Net cash provided by operating activities	121,591	11,621
Cash flows from investing activities		
Purchase of property and equipment	(90,496)	-
Net cash used by investing activities	(90,496)	-
Net increase in cash and cash equivalents	31,095	11,621
Cash and cash equivalents, beginning of year	802,509	790,888
Cash and cash equivalents, end of year	\$ 833,604	\$ 802,509
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 88,738	\$ (54,313)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	39,805	20,274
(Increase) decrease in assets:		
Accounts receivable	-	44,149
Deposits and prepaid expenses	(631)	1,735
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(6,321)	(224)
Net cash provided by operating activities	\$ 121,591	\$ 11,621

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:

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.

Notes to Financial Statements (Continued)
Houston Heights High School

Note 1 – Summary of Significant Accounting Policies (Continued)

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, 2012 and 2011.

Cash and Cash Equivalents

Cash and cash equivalents represent cash in banks and highly liquid investments with maturity dates of three months or less.

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.

Date of Management’s Review

Subsequent events were evaluated through January 15, 2013, which is the date the financial statements were available to be issued.

Note 2 – Investments

Investments at August 31, 2012 and 2011 consisted of a \$250,000 certificate of deposit, maturing in August, 2012. Interest on these CD is earned at an annual percentage rate of 2.7%. This investment is stated at cost, which equals fair market value.

Note 3 – Capital Assets

Capital assets consist of the following:

	August 31,	
	2012	2011
Improvements	\$ 504,631	\$ 414,135
Furniture and equipment	237,271	237,271
	741,902	651,406
Accumulated depreciation	(422,285)	(382,480)
	\$ 319,617	\$ 268,926

Depreciation expense for the years ended August 31, 2012 and 2011 was \$39,805 and \$20,274, 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.

Notes to Financial Statements (Continued)
Houston Heights High School

Note 4 – Pension Plan Obligations

Plan Description

The charter school contributes to the Teacher Retirement System of Texas (the System), 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 the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government code, Title 8, Chapters 803 and 805, respectively. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. The report may be obtained by writing to the TRS Communications Department, 1000 Red River, 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 TRS Publications Heading.

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% of the member's annual compensation and a state 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 improvement 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 6.4% for fiscal 2012 and 2011. The charter school employees' contributions to the System for the years ended August 31, 2012 and 2011, were \$58,721 and \$76,043, equal to the required contributions for these years.

Note 5 – Health Care Coverage

During the years ended August 31, 2012 and 2011, 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.

Notes to Financial Statements (Continued)
Houston Heights High School

Note 6 – Lease Obligation and Related Party Transactions

The HHHS has entered into an operating lease for facilities. HHHS incurred \$304,044 and \$295,133 in facilities lease expenses for the years ended August 31, 2012 and 2011, respectively. The current lease expires in November, 2017. Additionally, the school leases office equipment under various operating leases. Future minimum payments under these agreements for the years ending August 31, are as follows:

	Year Ended August 31;
2013	\$ 279,248
2014	285,756
2015	293,020
2016	301,811
2017	310,865

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, 2012 and 2011 consisted of the following:

	2012	2011
FSP revenues (420)	\$ 1,200,166	\$ 1,111,428
Federal programs (289)	1,000	1,000
	\$ 1,201,166	\$ 1,112,428

Note 9 – Fair Value of Financial Instruments

GAAP requires disclosure of an estimate of fair value of certain financial instruments. The School's significant financial instruments are cash, account receivable, certificates of deposit, and other short-term assets and liabilities. For these financial instruments, carrying values approximate fair value.

Special-Purpose Statements

Houston Heights High School

Schedule of Expenses

For the Years Ended August 31, 2012 and 2011

	Totals	
	2012	2011
Expenses		
6100 Payroll Costs	\$ 1,153,816	\$ 1,386,292
6200 Professional and Contracted Services	487,509	536,304
6300 Supplies and Materials	183,970	87,557
6400 Other Operating Costs	88,648	115,089
6500 Debt	-	-
Total Expenses	<u>\$ 1,913,943</u>	<u>\$ 2,125,242</u>

Houston Heights High School

Schedule of Capital Assets

For the Year Ended August 31, 2012

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ -	\$ 833,604	\$ -
1910 Investments	-	250,000	-
1520 Improvements	52,804	451,827	-
1539 Furniture and Equipment	39,650	156,461	41,160
	<u>\$ 92,454</u>	<u>\$ 1,691,892</u>	<u>\$ 41,160</u>

Houston Heights High School

Budgetary Comparison Schedule

For the Year Ended August 31, 2012

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
Revenues				
Local support				
5740 Other Revenues from local sources	\$ -	\$ -	\$ 6,852	\$ 6,852
5750 Revenue from enterprising sources	-	-	1,256	1,256
State program revenues				
5810 Foundation School Program Act	1,627,113	1,737,986	1,769,853	31,867
5820 State Program revenues distributed by Texas Education Agency	-	-	2,334	2,334
Total state program revenues	<u>1,627,113</u>	<u>1,737,986</u>	<u>1,772,187</u>	<u>34,201</u>
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	35,000	180,497	222,386	41,889
Total federal revenues	<u>35,000</u>	<u>180,497</u>	<u>222,386</u>	<u>41,889</u>
Total revenues	<u>1,662,113</u>	<u>1,918,483</u>	<u>2,002,681</u>	<u>84,198</u>
Expenses				
11 Instruction	693,311	928,000	955,186	(27,186)
12 Instructional Resource and Media	-	-	-	-
13 Curriculum Development and Instructional Staff Development	7,000	5,450	4,719	731
21 Instructional Leadership	51,000	43,000	42,060	940
23 School Leadership	89,002	115,500	114,151	1,349
31 Guidance, Counseling and Evaluation Services	72,910	64,000	62,623	1,377
32 Social Work Services	-	-	-	-
33 Health Services	950	950	459	491
34 Student (Pupil) Travel	-	-	-	-
35 Food Service	62,225	74,800	70,708	4,092
36 Cocurricular/Extracurricular Activities	10,000	10,000	7,380	2,620
41 General Administration	185,500	181,000	175,704	5,296
51 Plant Maintenance and Operations	466,500	493,000	480,953	12,047
52 Security and Monitoring Services	-	-	-	-
Total expenses	<u>1,638,398</u>	<u>1,915,700</u>	<u>1,913,943</u>	<u>1,757</u>
Change in net assets	23,715	2,783	88,738	85,955
Net assets, beginning of year	<u>1,322,830</u>	<u>1,322,830</u>	<u>1,322,830</u>	<u>-</u>
Net assets, end of year	<u>\$ 1,346,545</u>	<u>\$ 1,325,613</u>	<u>\$ 1,411,568</u>	<u>\$ 85,955</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 years ended August 31, 2012 and 2011, and have issued our report thereon dated January 15, 2013. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, 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 School's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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 financial statements will not be prevented or detected and corrected on a timely basis

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material. 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 grants, noncompliance with which could have a direct and material effect on the determination of financial 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 matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of management, the Texas Education Agency, the Board of Directors, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ralph and Ralph, P.C.

January 15, 2013

Houston Heights High School

Schedule of Findings and Questioned Costs

For the Year Ended August 31, 2012

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on the financial statements
of the auditee

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

Federal Awards

Auditee did not meet the requirements for a single audit.

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, 2011

None identified

Houston Heights High School

Aaron Jacks, Business Manager

1125 Lawrence Drive
Houston, Texas 77008
Phone: (713) 868-9797
FAX: (713) 868-9750

January 15, 2013

Texas Education Agency
Division of Financial Audits
1701 North Congress Avenue
Austin, Texas 78701

To Whom It May Concern:

The annual financial report for The Foundation for Recovering Youth (FEIN: 76-0584154) DBA Houston Heights High School (CDN: 101821) is attached. The electronic copy has been submitted to TEASE as well.

The explanations for the final budget modifications that were in excess of 10% change from the original budget are as follows:

- Instruction was increased to reflect Title grant funds that were not available when the original budget was approved.
- School Leadership expense was increased to reflect a shifting of responsibilities from another position.
- Food Service expense was increased to reflect a larger than expected cost to provide meals to students.

Feel free to contact me if you have any further questions.

Best Regards,



Aaron Jacks, Business Manager