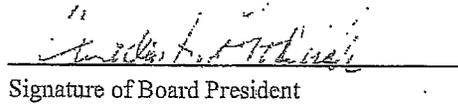


Foundation for Recovering Youth (Charter Holder)
DBA Houston Heights High School
(Federal Employer Identification Number: 76-0584154)
Certificate of Board

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, 2014, at a meeting of the governing body of the charter holder on the 15th day of January 2015.



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, 2014 and 2013



Houston Heights High School
Financial Statements and Supplemental Information

August 31, 2014 and 2013

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Independent Auditor's Report

To the Board of Trustees of
Houston Heights High School

Report in the Financial Statements

We have audited the accompanying financial statements of Foundation for Recovering Youth (charter holder) and Houston Heights High School (the charter school) as of August 31, 2014 and 2013, and the related statements of activities and cash flows for the years 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 audits. 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. Those standards require that we plan and perform the audits 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 Foundation for Recovering Youth as of August 31, 2014 and 2013, 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.

Other Matters

Our audits were conducted 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 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 taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated January 6, 2015, on our consideration of the charter school's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts and grants grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit of an audit performed in accordance with *Government Auditing Standards* in considering the charter school's internal control over financial reporting and compliance.

Ralph and Ralph, P.C.

Houston, Texas
January 6, 2015

Houston Heights High School

Statements of Financial Position

	August 31,	
	2014	2013
Assets		
Current assets		
Cash and cash equivalents	\$ 990,347	\$ 506,016
Accounts receivable	3,005	8,651
Investments	250,000	675,000
Prepaid expenses and deposits	10,000	10,000
Total current assets	1,253,352	1,199,667
Property and equipment, net	244,894	289,138
Total assets	\$ 1,498,246	\$ 1,488,805
Liabilities and net assets		
Current liabilities		
Accounts payable and accrued liabilities	\$ -	\$ 45,993
Total current liabilities	-	45,993
Net assets		
Unrestricted net assets	185,464	207,733
Temporarily restricted	1,312,782	1,235,079
Total net assets	1,498,246	1,442,812
Total liabilities and net assets	\$ 1,498,246	\$ 1,488,805

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, 2014 and 2013

	Unrestricted	Temporarily Restricted	Totals	
			2014	2013
Revenues				
Local support:				
5740 Other revenues from local sources	\$ 10,707	\$ -	\$ 10,707	\$ 7,050
5750 Revenue from enterprising sources	-	-	-	-
State program revenues				
5810 Foundation School Program Act	-	1,945,750	1,945,750	1,901,588
5820 State program revenues distributed by Texas Education Agency	-	27	27	24,518
Total state program revenues	-	1,945,777	1,945,777	1,926,106
Federal program revenues:				
5920 Federal revenues distributed by the the Texas Education Agency	-	145,019	145,019	165,051
Net assets released from restrictions:				
Restrictions satisfied by payments	2,013,093	(2,013,093)	-	-
Total revenues and other support	2,023,800	77,703	2,101,503	2,098,207
Expenses and other losses				
11 Instruction	1,096,521	-	1,096,521	1,108,514
12 Instructional Resources and Media Services	-	-	-	-
13 Curriculum Development and Instructional Staff Development	5,507	-	5,507	4,511
21 Instructional Leadership	74,914	-	74,914	59,408
23 School Leadership	87,050	-	87,050	110,116
31 Guidance, Counseling and Evaluation Service	53,594	-	53,594	54,521
33 Health Services	674	-	674	608
35 Food Services	13,125	-	13,125	8,832
36 Cocurricular/Extracurricular Activities	26,795	-	26,795	23,603
41 General Administration	157,119	-	157,119	176,393
51 Plant Maintenance and Operations	530,770	-	530,770	479,922
52 Security and Monitoring Services	-	-	-	40,535
53 Data Processing Services	-	-	-	-
	2,046,069	-	2,046,069	2,066,963
Change in net assets	(22,269)	77,703	55,434	31,244
Net assets, beginning of year	207,733	1,235,079	1,442,812	1,411,568
Net assets, ending of year	\$ 185,464	\$ 1,312,782	\$ 1,498,246	\$ 1,442,812

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, 2014 and 2013

	2014	2013
Cash flows from operating activities		
Foundation School Program payments	\$ 1,945,750	\$ 1,901,588
Grant payments	150,692	180,918
Miscellaneous sources	10,707	7,050
Payments to vendors for goods and services	(887,073)	(893,499)
Payments to charter school personnel for services	(1,160,745)	(1,084,905)
Net cash provided by operating activities	59,331	111,152
 Cash flows from investing activities		
Proceeds from sale of investments	425,000	
Purchase of investments	-	(425,000)
Purchase of property and equipment	-	(13,740)
Net cash used by investing activities	425,000	(438,740)
Net increase in cash and cash equivalents	484,331	(327,588)
 Cash and cash equivalents, beginning of year	506,016	833,604
 Cash and cash equivalents, end of year	\$ 990,347	\$ 506,016
 Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 55,434	\$ 31,244
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	44,244	44,219
(Increase) decrease in assets:		
Accounts receivable	5,646	(8,651)
Deposits and prepaid expenses	-	631
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(45,993)	43,709
Net cash provided by operating activities	\$ 59,331	\$ 111,152

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
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, 2014 and 2013.

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 6, 2015, which is the date the financial statements were available to be issued.

Note 2 – Investments

Investments at August 31, 2014 and 2013 consisted of the following certificates of deposit:

Bank	Maturity	Rate	Face Amount	
			8/31/2014	8/31/2013
Compass Bank	12/15/2015	2.75%	\$ 250,000	\$ 250,000
Bank of the Internet	10/23/2013	1.09%	-	225,000
Central Bank	9/23/2013	0.45%	-	200,000
			\$ 250,000	\$ 675,000

Note 3 – Capital Assets

Capital assets consist of the following:

	August 31,	
	2014	2013
Improvements	\$ 518,371	\$ 518,371
Furniture and equipment	237,271	237,271
	755,642	755,642
Accumulated depreciation	(510,748)	(466,504)
	\$ 244,894	\$ 289,138

Notes to Financial Statements Houston Heights High School

Note 3 – Capital Assets (continued)

Depreciation expense for the years ended August 31, 2014 and 2013 was \$44,244 and \$44,219, 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 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's 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 2014 and 2013. The charter school employees' contributions to the System for the years ended August 31, 2014 and 2013, were \$68,171 and \$64,073, equal to the required contributions for these years.

Note 5 – Health Care Coverage

During the years ended August 31, 2014 and 2013, 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
Houston Heights High School

Note 6 – Lease Obligation and Related Party Transactions

The HHHS has entered into an operating lease for facilities. HHHS incurred \$326,437 and \$306,278 in facilities lease expenses for the years ended August 31, 2014 and 2013, 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;
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 comparable to 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, 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
FSP revenues (420)	\$ 1,312,782	\$ 1,234,079
Federal programs (289)	-	1,000
	<u>\$ 1,312,782</u>	<u>\$ 1,235,079</u>

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, 2014 and 2013

	Totals	
	2014	2013
Expenses		
6100 Payroll Costs	\$ 1,266,144	\$ 1,202,917
6200 Professional and Contracted Services	577,773	495,679
6300 Supplies and Materials	99,247	264,254
6400 Other Operating Costs	102,905	104,113
6500 Debt	-	-
Total Expenses	<u>\$ 2,046,069</u>	<u>\$ 2,066,963</u>

Houston Heights High School

Schedule of Capital Assets

For the Year Ended August 31, 2014

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ -	\$ 990,347	\$ -
1910 Investments	-	250,000	-
1520 Improvements	52,804	465,567	-
1539 Furniture and Equipment	39,650	156,461	41,160
	<u>\$ 92,454</u>	<u>\$ 1,862,375</u>	<u>\$ 41,160</u>

Houston Heights High School

Budgetary Comparison Schedule

For the Year Ended August 31, 2014

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
Revenues				
Local support				
5740 Other Revenues from local sources	\$ -	\$ 10,000	\$ 10,707	\$ 707
5750 Revenue from enterprising sources	-	-	-	-
State program revenues				
5810 Foundation School Program Act	1,850,000	1,933,848	1,945,750	11,902
5820 State Program revenues distributed by Texas Education Agency	-	30,000	27	(29,973)
Total state program revenues	<u>1,850,000</u>	<u>1,963,848</u>	<u>1,945,777</u>	<u>(18,071)</u>
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	-	94,354	145,019	50,665
Total federal revenues	-	94,354	145,019	50,665
Total revenues	<u>1,850,000</u>	<u>2,068,202</u>	<u>2,101,503</u>	<u>33,301</u>
Expenses				
11 Instruction	932,500	1,079,000	1,096,521	(17,521)
12 Instructional Resource and Media	-	-	-	-
13 Curriculum Development and Instructional Staff Development	5,500	7,000	5,507	1,493
21 Instructional Leadership	63,560	76,000	74,914	1,086
23 School Leadership	104,880	89,000	87,050	1,950
31 Guidance, Counseling and Evaluation Services	64,000	54,000	53,594	406
32 Social Work Services	-	-	-	-
33 Health Services	951	750	674	76
34 Student (Pupil) Travel	-	-	-	-
35 Food Service	12,000	13,500	13,125	375
36 Cocurricular/Extracurricular Activities	24,320	28,500	26,795	1,705
41 General Administration	131,880	161,036	157,119	3,917
51 Plant Maintenance and Operations	512,000	533,000	530,770	2,230
52 Security and Monitoring Services	-	-	-	-
Total expenses	<u>1,851,591</u>	<u>2,041,786</u>	<u>2,046,069</u>	<u>(4,283)</u>
Change in net assets	(1,591)	26,416	55,434	29,018
Net assets, beginning of year	<u>1,442,812</u>	<u>1,442,812</u>	<u>1,442,812</u>	-
Net assets, end of year	<u>\$ 1,441,221</u>	<u>\$ 1,469,228</u>	<u>\$ 1,498,246</u>	<u>\$ 29,018</u>

See auditors report

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, 2014 and 2013, and have issued our report thereon dated January 6, 2015. 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 6, 2015

Houston Heights High School

Schedule of Findings and Questioned Costs

For the Year Ended August 31, 2014

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, 2013

None identified